

THE 2022 JOINT ECONOMIC REPORT

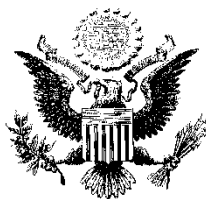
R E P O R T

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ON THE

2022 ECONOMIC REPORT
OF THE PRESIDENT



JUNE 24, 2022 – Committed to the Committee of the Whole House on the state of the Union and
ordered to be printed

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LETTER OF TRANSMITTAL

June 24, 2022

HON. NANCY PELOSI
Speaker, U.S. House of Representatives
Washington, DC

DEAR MADAM SPEAKER:

Pursuant to the requirements of the *Employment Act of 1946*, as amended, I hereby transmit the 2022 Joint Economic Report. The analyses and conclusions of this Report are to assist the several Committees of the Congress and its Members as they deal with economic issues and legislation pertaining thereto.

Sincerely,

Donald S. Beyer Jr.
Chairman

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MR. BEYER, from the Joint Economic Committee,
submitted the following

REPORT

Report of the Joint Economic Committee on the 2022 Economic Report of the
President

CHAIRMAN’S VIEWS

I am pleased to share the Joint Economic Committee (JEC) Democratic response to the 2022 Economic Report of the President. The JEC is required by law to submit findings and recommendations in response to the Economic Report of the President (the Report), which is prepared and released each year by the Council of Economic Advisers (CEA). This year’s report, released in April 2022, was the first published by the Biden administration.

Under President Biden and the 117th Congress, the United States has experienced a robust economic recovery and strong job gains. Economic growth in 2021 reached 5.7%, the highest rate in 40 years. As of May 2022, the United States had added almost 8.7 million jobs under President Biden. The unemployment rate was 3.6%, a level not seen since before the coronavirus pandemic and significantly below the 6.4% rate when President Biden took office.

The passage of the American Rescue Plan and the Biden administration's successful rollout of coronavirus vaccines paved the course for record-breaking job gains and robust economic growth. And the bipartisan Infrastructure Investment and Jobs Act makes critical fixes to America's infrastructure, which will support new jobs and sustain economic growth.

While the economic recovery has been strong, global supply chain disruptions and worldwide price increases have strained family budgets. Congress and the Biden administration have acted to address inflation head-on and reduce out-of-pocket costs for families, including releasing a record amount of oil from the Strategic Petroleum Reserve, providing relief for energy bills, lowering health insurance premiums for millions of families and fixing supply chain bottlenecks, among other measures. Making investments that improve productivity and increase labor force participation, as well as ensuring the wealthy and big corporations pay their fair share of taxes, will help bring down inflationary pressures long term.

The coronavirus pandemic exacerbated long-standing economic inequalities, and while coronavirus relief measures were effective at helping families weather the impact of the pandemic, more is needed to alleviate inequalities and create economic opportunity

for all. Workers of color were particularly hard-hit by the initial wave of layoffs in spring 2020. Pandemic relief contained the economic fallout, but even as unemployment has dropped, the racial gaps in hiring, wages and wealth have persisted. This is holding back workers of color, their families and the economy as a whole. Through the American Rescue Plan, the Biden administration and Congress have made historic investments in building an equitable recovery that includes historically disadvantaged communities, workers of color and minority-owned small businesses. However, more must be done through effective policy and new investments to fight long-standing economic inequalities and create shared prosperity for all.

Women, who have historically received lower wages and had lower labor force participation, also faced unique challenges as a result of the pandemic and the resulting increase in care responsibilities. Women continue to shoulder a disproportionate share of care responsibilities, and the lack of family-friendly workplace policies and affordable care options meant many women were pushed out of the workforce during the worst of the pandemic. The American Rescue Plan and earlier pandemic aid provided direct relief to working families, such as through investments in paid leave and child care and the expanded Child Tax Credit to help address this gap, but long-term solutions are needed to fully support women's participation in the labor market and to fix the systemic devaluing of work done by women.

Congress should make new investments to help bolster household economic security, spur long-term economic growth and transition to a clean-energy economy. Building out U.S. care infrastructure will reduce costs for families and help parents enter and remain in the workforce. Investing in infrastructure, research and manufacturing will improve productivity and create new jobs.

Transitioning the United States to clean, renewable energy will bring down costs for families and small businesses, while reducing dependence on foreign fossil fuels and insulating against the rising costs of climate change.

The United States has the fiscal capacity to make investments that create long-term economic growth. Under President Biden, the federal budget deficit is expected to drop by a record amount this year, and federal revenue has grown substantially thanks to the economic recovery. Additional revenue from the wealthiest Americans and big corporations can fund new investments to fix long-standing problems, without putting additional tax burdens on working Americans or negatively impacting economic growth.

This Congress and the Biden administration have an opportunity to build an economy with sustained economic growth that works for all U.S. workers and families.

DONALD S. BEYER JR.
CHAIRMAN

**CHAPTER 1: THE ECONOMY REBOUNDED FASTER
THAN EXPECTED IN 2021 THANKS TO EFFORTS BY
CONGRESS AND THE BIDEN ADMINISTRATION, BUT
LONG-TERM CHALLENGES REMAIN**

The U.S. has experienced a robust economic recovery, but global events have pushed up prices, depriving workers of the full benefits of the recovery

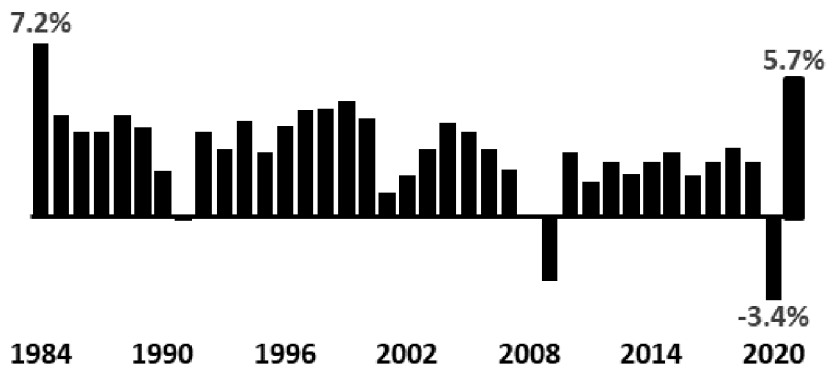
The U.S. experienced economic growth in 2021 not seen in four decades, recovering faster than peer economies

Since January 2021, the U.S. has experienced a robust economic recovery, thanks in large part to Congress and the Biden administration passing the American Rescue Plan into law and the successful roll out of coronavirus vaccinations. The U.S. economy has bounced back from the economic impact of the coronavirus and proven resilient in the face of emerging variants, global supply chain disruptions pushing up prices and Putin's invasion of Ukraine creating geopolitical chaos.

The economy grew 5.7% in 2021—the fastest rate in nearly 40 years—and the United States has experienced the fastest economic recovery among G7 economies.¹ Not only has the U.S. surpassed pre-pandemic GDP levels, it is one of the only major economies worldwide that has recovered to its pre-pandemic trend of economic growth. Across metrics, the United States is outpacing its peer countries in its economic rebound from the coronavirus recession. This year the U.S. economy is on track to grow faster than China, which has not happened in over 40 years.²

The Economy Grew in 2021 at the Fastest Rate in Nearly 40 Years

Real gross domestic product, percent change, 1984 to 2021



Source: Bureau of Economic Analysis

Data continue to indicate economic strength in early 2022, as consumption and business investment were both robust and positive. While the economy did contract slightly in the first quarter of 2022, the contraction was largely due to changes in inventories and net exports that masked strong underlying economic data.

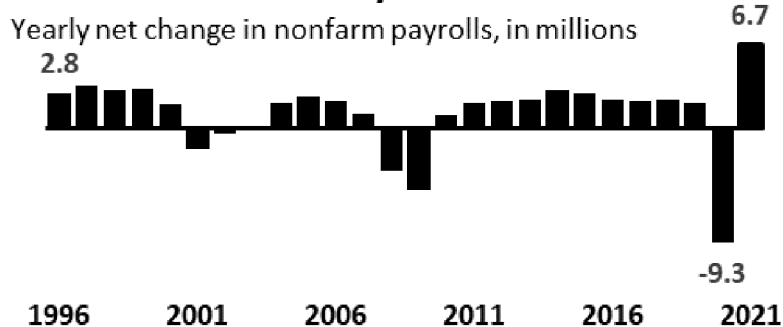
President Biden has continued the trend of stronger economic growth under Democratic presidents. From 1933 to 2020, the economy grew at an average rate of 4.6% per year under Democratic presidents, or nearly double the rate (2.4%) under Republican presidents.³ The strong economic recovery under President Biden is due in no small part to the successful passage of the American Rescue Plan, which funded the distribution of the coronavirus vaccines, supported state and local governments to keep essential workers on the job and helped U.S. workers and families weather the economic impact of the coronavirus pandemic. As a result, the economy's 5.7% growth rate in 2021 surpassed projections from before the passage of the Rescue Plan

from both the Federal Reserve, which forecast 4.2% growth, and the Congressional Budget Office, which forecast 4.6% growth.⁴

The U.S. has added a record 8.7 million jobs under President Biden and unemployment dropped to 3.6% in the spring of 2022

Just two-and-a-half years out from the beginning of the coronavirus pandemic, the U.S. has recovered 96% of the jobs lost and unemployment has declined to just 3.6%. The U.S. has added nearly 8.7 million jobs under President Biden, with every state and the District of Columbia experiencing net job gains. The U.S. has recovered from the coronavirus recession far faster than recent recessions and is on track to bring back every job lost during the pandemic by the end of 2022.

2021 Was the Best Year for Job Creation in Recorded U.S. History



Source: Bureau of Labor Statistics.

Note: Data show the net change in payrolls for each year and are seasonally adjusted.

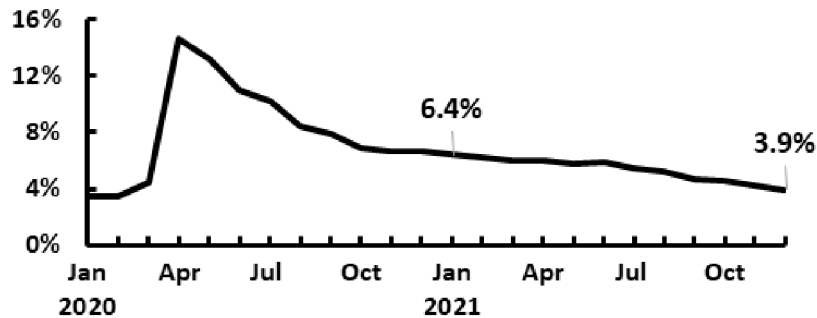
Sectors critical to addressing ongoing supply chain disruptions have experienced a robust recovery. Jobs in the construction and transportation and warehousing sectors have exceeded pre-pandemic levels of employment. Funding from the bipartisan

Infrastructure Investment and Jobs Act signed into law by President Biden in November 2021 has begun to flow and is projected to support hundreds of thousands of jobs each year over the next decade to support rebuilding infrastructure.⁵

In just under two years, the unemployment rate has fallen from 14.7% during the worst of the pandemic to 3.6%, which is the same as the unemployment rate before the pandemic in December 2019. Currently, 15 states have unemployment rates at or below previous record lows. Recently, new unemployment insurance claims fell to their lowest level since 1968.

2021 Saw the Sharpest Annual Decline in Unemployment on Record

Unemployment rate, January 2020 to December 2021



Source: Bureau of Labor Statistics.

Note: Data shows the civilian unemployment rate, ages 16+, seasonally adjusted.

The U.S. has added over half a million new manufacturing jobs under President Biden, reversing a decades-long decline in manufacturing jobs

The U.S. has added 584,000 manufacturing jobs between when President Biden took office in January 2021 and May 2022.⁶ Notably, almost every state and the District of Columbia added

manufacturing jobs over the first 15 months after President Biden came into office.⁷ By comparison, the U.S. added just 2,000 manufacturing jobs in 2019. This rebound is helping to reverse a decades-long decline in U.S. manufacturing employment.

Manufacturing has long been a core strength of the American economy, but increasing global competition has threatened many of these high-quality jobs. In the first two decades of the 21st century, the United States lost more than a quarter of all domestic manufacturing jobs, a decline of about 5 million.⁸ Increased competition from China led to an estimated 985,000 American manufacturing jobs lost between 1999 and 2011.⁹

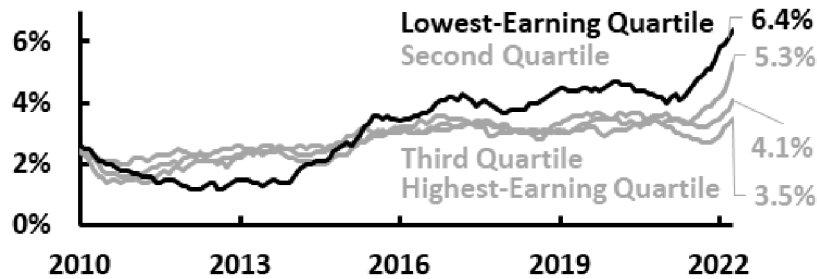
Manufacturing jobs frequently provide better pay, more consistent hours and stronger worker protections than retail or other service industries.¹⁰ The loss of high-quality manufacturing jobs was a major reason the median income of working-class men without a secondary school diploma fell by 20% between 1990 and 2013.¹¹

Wage growth has been strong, especially for the lowest earners

Strong demand in the labor market is helping workers secure better jobs with higher pay, even as global inflation strains household budgets. Average hourly earnings are up 5.2% over the last year. The lowest-income workers have seen the largest gains. Over the last 12 months, wages at the bottom of the income distribution increased 6.7%, an indication that the strength of the U.S. recovery is reaching workers who have been excluded from previous wage gains. Job openings are also near record highs, bringing marginalized workers back into the workforce and increasing worker bargaining power to negotiate for higher wages.

Wage Growth Has Been Fastest for the Lowest Earners

Median wage growth by wage quartile, 12-month moving average, Jan. 2010 to Apr. 2022



Source: Atlanta Fed Wage Tracker

Note: Wage growth data are nominal and not adjusted for inflation.

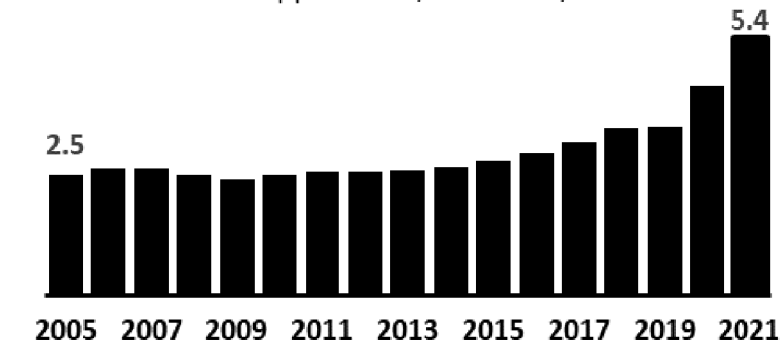
Strong demand for labor means that workers are able to find new jobs more easily, and they can negotiate for higher wages in that new job. As a result, workers who switched jobs over the past 12 months saw median wage gains that were even higher than those who stayed in their current jobs.

Business starts reached record levels in 2021

The U.S. experienced a business and entrepreneurship boom in 2021 as the number of new business applications reached a record high.¹² In total, Americans filed 5.4 million applications for new businesses in 2021, 68% higher than the average number of filings in the five years before the pandemic.¹³ Of these new applications, 1.8 million were for businesses of the type likely to become employers, also a record high.¹⁴ In fact, the number of high-propensity business filings in 2021 was 42% higher than the average number of applications in the five years before the pandemic.¹⁵

A Record Number of People Started New Businesses in 2021

Total new business applications, in millions, 2005 to 2021



Source: Census Bureau.

Note: Data are seasonally adjusted.

Thanks to the American Rescue Plan and other emergency measures, the Biden administration disbursed more than \$400 billion in emergency assistance to well over 6 million businesses, including those run by Black, Hispanic and Asian business owners who were hit hard by the pandemic.¹⁶ These policies helped existing businesses survive, and the robust economic recovery led to a record number of new business applications in 2021.¹⁷

The record boom in business applications in 2021 took place all across the country. Thirty-one states and the District of Columbia saw over 50% more applications than the pre-pandemic annual average, including six states where applications more than doubled.¹⁸

Global events have pushed up prices worldwide, denying American workers the full benefits of the economic recovery

While the U.S. has experienced a robust economic recovery under President Biden, inflation is depriving U.S. workers and families

of the full benefits of higher wages and strong job gains. Around the world, inflation remains elevated—a result of unprecedented disruptions caused by the pandemic and, more recently, exacerbated by Russia’s invasion of Ukraine. Inflation in the U.S. over the last year climbed to 8.6% as of May 2022.¹⁹ By comparison, Eurozone inflation reached 8.1% in the twelve months ending in May.²⁰

Investing in infrastructure and manufacturing will improve supply chains and help insulate workers and families from price volatility caused by global shocks. Investments that grow the economy by expanding long-term productive capacity will reduce inflationary pressure and ensure that the U.S. is producing goods here at home. Failing to address the underlying causes of inflation will only leave families vulnerable to similar shocks in the future.

The Biden administration and Congress took action to drive a robust recovery and address economic challenges

The American Rescue Plan supported families and communities through hardship caused by the coronavirus pandemic

The American Rescue Plan, signed into law in March 2021, provided crucial support for families and helped set the U.S. on the course to a strong recovery. The Rescue Plan included income replacement for families and for workers who lost their jobs through no fault of their own during the pandemic, including expansion of the Child Tax Credit, continued supplemental Unemployment Insurance benefits and direct payments to households. The Rescue plan also provided funding for state and local governments to keep essential workers on the job and to scale up and distribute coronavirus vaccines, testing and treatment on an equitable basis.

The expansion of the Child Tax Credit under the Rescue Plan was one of the largest-ever, single-year tax cuts for families with children. Qualifying families received monthly payments from July through December 2021. Over 36 million families that included more than 61 million children received a total of nearly \$93 billion in advance CTC payments. The expanded CTC was the primary driver of record-low child poverty levels in 2021. The expanded CTC alone reduced monthly child poverty by 30% and kept 3.7 million children out of poverty.²¹ More than 80% of the CTC's poverty reduction came from making the credit fully refundable, so that families with little or no income could receive the full amount.²²

Under President Biden, the federal government delivered more than \$400 billion in direct assistance from the Rescue Plan and other emergency response measures to more than six million small businesses, which kicked off a small business boom in 2021.²³ The Biden administration prioritized distributing small-business funding to businesses with fewer than 20 employees and helped businesses in low- and moderate-income areas.²⁴

The American Rescue Plan included \$122 billion to help K-12 schools reopen and address ongoing issues caused by the coronavirus pandemic, including mental health concerns and learning loss.²⁵ In addition, the Rescue Plan delivered more than \$10 billion for community colleges and their students, including a record \$2.7 billion to Historically Black Colleges and Universities (HBCUs) and their students.²⁶

The American Rescue Plan also included funding streams to help households manage costs and withstand the economic impact of the coronavirus pandemic. The Rescue Plan helped make healthcare more affordable, leading to record enrollment in

marketplace healthcare plans.²⁷ The Rescue Plan more than doubled funding for the Low-Income Home Energy Assistance Program to \$8 billion to help families with the cost of home heating and cooling.²⁸ In addition, Rescue Plan funding helped 5 million renters remain housed, leading to below-average evictions even after the end of the CDC's eviction moratorium.²⁹

The Biden administration has taken steps to raise wages and protect workers

The Biden administration has acted aggressively to protect workers and raise wages. Under President Biden, the U.S. Labor Department is helping to ensure that more than 11 million American workers attain the pay they deserve by improving the guidelines for when employers can apply tips to meet minimum wage laws.³⁰ This action reverses Trump administration policies that facilitated the underpayment of certain employees.

The Biden administration also implemented a \$15 minimum wage for federal contractors, up from the previous floor of \$10.95.³¹ This raise will impact over 300,000 workers and aid many more.³² The minimum wage increase for federal contractors will also boost the wages of those who do not work for federal contractors by increasing competition for talent.³³ Employers who compete with federal contractors for workers will face pressure to also increase wages to meet hiring needs, spurring broader wage increases.

The Biden administration was the first to use the Rapid Response Mechanism in the U.S.-Mexico-Canada Agreement (USMCA) to lift wages in the United States.³⁴ Strong enforcement of the labor provisions in the USMCA will ensure that companies can no longer exploit workers in Mexico to save on labor costs.³⁵ As a result of this change in enforcement, companies will have less

incentive to cut American manufacturing jobs and wages and ship jobs out of the country.

Biden administration actions alleviated supply chain disruptions

Global supply chains have faced repeated disruptions since the start of the coronavirus pandemic.³⁶ International factory shutdowns due to coronavirus outbreaks, extreme weather events and Russia's invasion of Ukraine have all contributed to backlogs and delays that strained the ability of U.S. ports, rail lines and trucking routes to deliver goods to market.³⁷

Though much of the global supply chain crunch is outside the control of the U.S. alone, the Biden administration eased supply chain issues by improving port operations and addressing logistical holdups through legislative and regulatory action.³⁸ Actions, including moving some of the country's largest ports to around-the-clock operations and utilizing off-peak hours to move more cargo, reduced the amount of dwell time for containers at ports.³⁹ These efforts helped alleviate port backups and led to a record number of shipping containers moving through the Ports of Los Angeles in 2021. The Ports of LA moved a record amount of cargo in 2021, 13% more cargo than the previous high set in 2018.⁴⁰

In December 2021, the Biden administration awarded \$241 million from the bipartisan Infrastructure Investment and Jobs Act to improve 25 American port facilities that play especially important roles in the U.S. supply chain ecosystem.⁴¹ The law included a total of \$17 billion to repair ports and waterways, which is estimated to support over 23,000 jobs each year.⁴² Additionally, the Biden administration launched the Trucking Action Plan to address labor force issues and create a pipeline for high-quality jobs in the trucking industry.⁴³

Congress and the Biden administration are working to bring down inflationary pressures and reduce costs

Congress and the Biden administration are implementing policies to reduce inflationary pressures. To bring down energy prices, the Biden administration coordinated the largest-ever releases of both domestic and international oil reserves to aggressively expand oil supply and temper gas price increases.⁴⁴ President Biden also directed the Federal Trade Commission to investigate whether oil and gas companies are participating in illegal conduct to push up gas prices.⁴⁵ The Biden administration has also worked to lower household food costs by boosting food production and expanding meat processing capacity. Additionally, the Biden administration prioritized ensuring that the institution best positioned to fight inflation—the Federal Reserve Board—has a full slate of highly qualified experts to combat inflation.

Congress and the Biden administration have also taken action to reduce out-of-pocket costs for families. With the Affordable Connectivity Program included in the bipartisan Infrastructure Investment and Jobs Act, Congress and the administration expanded broadband access and made it more affordable for low-income families. The program provides up to \$30 per month to help eligible families get access to the internet and currently serves over 10 million households. Congress and the Biden administration also have lowered monthly premiums and out-of-pocket health care costs via the enhanced premium tax credits in the American Rescue Plan.⁴⁶ Many of the record 14.5 million families who got their health insurance through the Affordable Care Act marketplaces, during the 2022 open enrollment period, are now spending less on health care than in 2020.

The Biden administration has also worked to solve supply chain disruptions that have been a major driver of high prices. The

administration has made tremendous progress in working with ports—particularly two of the largest U.S. ports in Los Angeles and Long Beach—to clear container backlogs and ease supply chain disruptions in order to get goods to consumers faster.⁴⁷ Additionally, the recently enacted bipartisan Infrastructure Investment and Jobs Act will help lower long-term inflationary pressures. Improving roads, bridges, rail, broadband, airports, cargo ports and water pipelines will bring down costs for business, make the economy more productive and drive economic growth all of which reduce inflation over the long term.

The U.S. faces both long-standing and new economic challenges

The U.S. has enduring wealth and income disparities along racial and gender lines

Structural racism and sexism have been present in the United States since its founding. Since data were first collected on income and wealth along gender and racial lines, there has been evidence of inequality in the outcomes of women and people of color relative to non-Hispanic white men.⁴⁸ Disparities persist through today. In the first quarter of 2022, white men working full-time were earning more than \$57,000 per year, considerably more than white women (\$48,000), Black men (\$42,000), Black women (\$38,000), Hispanic men (\$39,000) and Hispanic women (\$35,000).⁴⁹

These differences in income, due to discrimination, occupational segregation, gender socialization and more, have significant effects over the course of lifetimes.⁵⁰ Racial wealth gaps in particular are the result of centuries of enslavement, property theft and destruction and discrimination in the tax code, housing and labor market.⁵¹ Structural solutions are necessary to proactively support all families' financial security and close these gaps. These

policies include universal child care, a fully refundable child tax credit and wealth-building policies such as baby bonds.⁵²

Working families face unaffordable costs caring for children

The coronavirus recession put enormous burdens on working parents, especially mothers caring for children, and other caretakers of loved ones. The U.S. was already facing a crisis as the cost of care had grown enormously, even as care workers faced persistently low wages.⁵³ Recent national estimates find that child care costs for a single child average between \$9,200 and \$9,600 per year.⁵⁴ For a family with two young children, average child care costs exceed the median cost of rent in every reporting state and the District of Columbia.⁵⁵ Investing in care infrastructure will help parents re-engage the workforce and grow the economy.

Climate change poses a unique threat to society and economy but investments in clean energy will reduce costs and support new jobs

Climate change is an existential threat to U.S. families, communities and the economy. The economic impact of inaction on climate change is large and growing: Extreme heat will continue to decrease productivity, and extreme weather events will cause more damage to communities. Low-income and marginalized communities will see some of the largest economic impacts of climate change but have the fewest resources to withstand the negative impact of higher temperatures and extreme weather.

Investments in clean energy do more than combat climate change, they will lower energy costs, support new jobs and insulate family budgets from volatile energy markets. Continued dependence on fossil fuels will render families and businesses vulnerable to shocks in the international energy supply, like Putin's invasion of Ukraine, which has pushed up the price of gas at the pump.

Transitioning to clean, renewable energy sources such as wind and solar will protect families from drastic energy price increases while fighting climate change.

Working families face barriers to finding stable, affordable housing

The economic fallout from the coronavirus pandemic only worsened the ongoing housing affordability crisis. Every state, and the District of Columbia, lacks sufficient rental housing that is affordable for the lowest-income renters, a problem that has been exacerbated recently by pandemic-related supply chain bottlenecks. These ongoing affordability crises highlight the need for greater public investment to improve housing stability and increase affordability for American families.

The American Rescue Plan included valuable investments in housing stability that, together with other pandemic relief bills, prevented the sort of massive housing crisis that the U.S. saw during the Great Recession. This included the Emergency Rental Assistance program, which has helped over 5 million families at risk of eviction as of March 2022, while enabling states and localities to run their own rental assistance programs. Additionally, the combination of the Homeowner Assistance Fund and the federal moratorium on foreclosures helped avoid the devastating effects of the foreclosure wave during the Great Recession.

Concentrated corporate power has reduced American competitiveness, raising costs for families and lowering wages

Evidence shows that corporate concentration and power has grown in recent decades, constraining healthy competitive markets while reducing wages and pushing up prices for U.S. households. One study found 60% of local labor markets in the United States are

now highly concentrated, which has reduced competition and made it more difficult for small businesses to survive.⁵⁶ Fewer firms competing for business has pushed up prices for consumers, and fewer firms, competing for workers, has reduced wages. Concentrated corporate power also threatens innovation, as businesses hand profits back to their shareholders instead of investing in research and new technology.

Record corporate profits are another clear indication that markets have become less competitive over the last twenty years.⁵⁷ While the profit share of GDP varies with the business cycle, it remained relatively stable for the latter half of the 20th century and averaged about 6%.⁵⁸ But over the past two decades, profits have outpaced economic growth, and the after-tax profit share has increased to roughly 9%.⁵⁹ Higher corporate profits have led to increased payouts to shareholders, barriers to entry for new companies and reduced economic dynamism, as dominant firms are less likely to be replaced than they were two decades ago.⁶⁰

Despite record profits, firms are investing less per dollar of profits than they did decades ago. Between 1962 and 2001, firms invested 20 cents per dollar back into their businesses by spending on new equipment and innovations.⁶¹ Today, firms are investing just half of what they used to, which is limiting productivity and stifling economic growth.⁶²

Increasing concentration in the U.S. economy is also responsible for at least a 7% increase in overall consumer prices over the last 17 years.⁶³ Estimates show that increased monopoly rents have cost the typical household approximately \$3,700 every year.⁶⁴ Rising market concentration is also linked to declining workers' compensation and bargaining power.⁶⁵

New financial technology creates opportunities and risks for the U.S. economy

Over the last 11 years, the market for cryptocurrencies and the broader class of digital assets has grown from a niche industry to a globally significant financial market. This asset class is notably volatile, with the total digital asset market gaining and then losing over one trillion dollars in value *twice* since January 2021.⁶⁶ The market has dropped steadily since its peak in November 2022, contracting from nearly \$3 trillion to only \$1.2 trillion in May 2022.⁶⁷

While still a small share of the broader financial system compared to stocks and bonds, the growth of digital assets poses the risk that volatility and digital bank-runs on certain assets could disrupt more mainstream financial institutions like pension funds or mutual funds.⁶⁸ Moreover, these assets pose significant consumer protection risks given issues with financial fraud, hacks and market manipulation.⁶⁹ While all investments involve risk, the lack of disclosure and reporting requirements in many parts of the crypto asset industry tilt the playing field towards powerful players who can potentially manipulate markets to their advantage.⁷⁰

The current financial regulatory framework has taken steps to increase oversight and crack down on fraudulent actors, but significant gaps remain.⁷¹ Updating the federal government's regulations through legislation and executive action to increase oversight of crypto assets can help guide innovation that protects investors and the integrity of financial markets.

CHAPTER 2: LONGSTANDING ECONOMIC INEQUALITIES REQUIRE RENEWED PUBLIC INVESTMENT AND REAL SOLUTIONS

In recent decades, progress had been made to close long-standing inequities that persist along racial, ethnic, age and gender lines. However, the onset of the coronavirus pandemic exacerbated these pervasive gaps, highlighting the need for renewed public investment and real policy solutions to create economic opportunity for all U.S. workers and families. For example, unemployment among Black and Hispanic workers, which has been persistently higher than that of white workers, spiked precipitously at the onset of the coronavirus pandemic. Native American communities have long faced barriers to economic opportunity and continue to lag behind their white counterparts as the nation recovers from the economic impact of the pandemic. Additionally, large economic inequalities persist among diverse Asian American and Pacific Islander communities.

While overall unemployment numbers are strong, many workers of color still experience unemployment rates that are higher than average for white workers. In May 2022, the unemployment rate was 6.2% for Black workers, 4.3% for Hispanic workers and 2.4% for Asian workers.⁷² Unemployment among American Indian and Alaska Native workers was 4.5% (not seasonally adjusted).⁷³ The persistence of economic inequality in unemployment, income and wealth requires renewed public investment and real policy solutions to create economic opportunities and fight discrimination.

The gender pay gap has also persisted as women continue to face barriers to full participation in the economy and discrimination in the workplace. The pandemic increased caregiving

responsibilities, and women shouldered the majority of this responsibility. This led to lower labor force participation rates than that of their male counterparts, and women's participation rates have yet to rebound even as the nation recovers. Attacks on reproductive rights will only restrict economic opportunities and hinder progress for women and their families.

Finally, the coronavirus pandemic has had a disproportionate impact on older workers, who are generally defined as those ages 55 and above. The pandemic shed new light on the struggles facing older workers, including existing hiring and wage discrimination, the physical toll of certain types of work and growing retirement insecurity.

Black Americans have made significant economic progress, but income and wealth gaps persist

While median incomes for workers of all races have mostly increased since 1972, Black household income continues to lag behind that of white households. Today, the typical Black household earns 62 cents for every dollar earned by a white household.⁷⁴ The gap in incomes was smallest in 2000 but widened during the Great Recession before only recently beginning to narrow again.⁷⁵ In 2019, the ratio of white to Black wealth was nearly 8 to 1—a result of historical disparities in asset ownership, unemployment, wages and intergenerational wealth transfers.⁷⁶

Many policymakers and commentators suggest education as a panacea for eliminating racial income and wealth gaps. However, evidence shows that increased educational attainment alone is not enough to close employment, income and wealth gaps.⁷⁷ Despite enormous gains over the last 50 years in Black educational attainment, the racial wealth gap between Black and white

households has actually increased. For example, Black college graduates in their 30s have seen their wealth position drop by more than 80% relative to their white peers compared to 30 years ago.⁷⁸

Regardless of whether Black workers complete a postsecondary program, their incomes remain substantially below that of white workers, they are twice as likely to be unemployed and they earn substantially less over their lifetimes. Almost 40% of Black college graduates are underemployed—working jobs that do not fully utilize their skills, experience and availability to work—compared to 31% of white graduates.⁷⁹ To achieve the same socioeconomic status, Black students must go to school for longer and earn more academic credentials than white students.⁸⁰

At the onset of the pandemic recession, Black workers and families were disproportionately impacted by the spread of the coronavirus and the loss of millions of jobs across the United States.⁸¹ The American Rescue Plan and actions by the Biden administration were critical to helping Black families, small businesses and communities weather the impact of the coronavirus recession. The Rescue Plan expanded the Child Tax Credit, extended supplemental unemployment insurance benefits and sent direct payments to households. It also included a historic \$2.7 billion investment in Historically Black Colleges and Universities (HBCUs) and their students.⁸² The Biden administration disbursed more than \$400 billion in relief to small business, prioritizing businesses with under 20 employees and creating a \$1 billion fund for sole proprietorships in low-to-moderate income areas.⁸³

Congress can do more to create economic opportunity for Black communities and fight discrimination against Black workers. Investing in care infrastructure will help parents who face difficulty finding care for their children, reduce costs for families

and raise wages for care workers, who typically receive low wages and are disproportionately women of color. Investments in clean energy and climate resilience will help protect the health and safety of Black communities, which are disproportionately impacted by fossil-fuel energy production and are more vulnerable to extreme weather. Further investments in HBCUs and policies that fight racial discrimination in the workplace will provide greater economic opportunities to Black students and workers.

Hispanic workers and business owners power economic growth but face continued barriers to economic opportunities

Hispanic workers and small-business owners are a critical part of the U.S. economy, helping carry the economy through the pandemic and into recovery. Nearly 5 million Hispanic-owned businesses contribute over \$800 billion to the American economy every year, and about one-quarter of new businesses are Hispanic owned.⁸⁴ Hispanic-owned businesses are powering job creation, employing about 3 million workers, and Hispanic entrepreneurs have built successful businesses despite barriers to accessing capital.⁸⁵

Across industries, Hispanic workers played a pivotal role in supporting the U.S. economy during the pandemic, including in jobs that often placed them and their families at risk.⁸⁶ Hispanics comprised a large share of workers in jobs that required close contact with sick and high-risk individuals and were more likely to become hospitalized or die at the onset of the coronavirus pandemic.⁸⁷ Even before the pandemic, occupational segregation hurt Hispanic workers' earnings and resulted in poorer working conditions.⁸⁸ For example, over half of all Hispanic women in the workforce were in low-paying occupations near the end of 2021.⁸⁹

A renewed focus on creating economic opportunities and fighting discrimination is necessary to ensure that Hispanic workers, businesses and families can share in the prosperity that they help create. The American Rescue Plan took important steps, including funding for colleges and universities that included about \$11 billion for Hispanic-Serving Institutions.⁹⁰ Congressional support for small businesses helped create a small business boom in 2021, and Hispanic business formation that year was 23% higher than before the pandemic.⁹¹ Additional investments in the care economy and manufacturing jobs will create economic opportunities for Hispanic workers and their families.

Native American communities still face barriers to economic opportunity

The legacy of violent removal, forced assimilation and unmet obligations are reflected in the nature and magnitude of pervasive structural disparities that threaten the economic security and opportunity of Native American communities.⁹² Native people are held back by persistent disparities in employment, income and education. By early 2022, the labor force participation rate of Native Americans remained below the national rate.⁹³ Native Americans are also more likely to earn less than non-Hispanic white Americans.⁹⁴ These disparities contribute to a cycle of intergenerational poverty. Native Americans are more likely to live in poverty than individuals of other minority groups, irrespective of age.⁹⁵ Climbing the ladder of economic mobility is further complicated by disparities in education, as just one in five Native Americans over the age of 25 has attained a bachelor's degree.

Barriers to wealth-building and financing also limit the economic security of Native Americans. The typical white family has more than twice the wealth of the typical American Indian and Alaska

Native (AIAN) families.⁹⁶ Because wealth serves as an enabler of opportunity, these disparities translate into inequities in housing, access to education and economic outcomes. Despite a strong preference for owning a home, a smaller share of Native households owned homes in 2020 than in 2000.⁹⁷ Similarly, Native entrepreneurs are more likely than their counterparts to face barriers to obtaining credit and report a greater reliance on informal financing.⁹⁸

The American Rescue Plan and the bipartisan Infrastructure Investment and Jobs Act directly addressed long-standing economic issues facing Native communities. The Rescue Plan, for example, included the largest-ever funding for the Low-Income Home Energy Assistance Program (LIHEAP), assistance that is critical for Native American households that face disproportionately high energy bills.⁹⁹ The bipartisan infrastructure act invests over \$11 billion in Native communities, including funding for broadband, water and transportation infrastructure.¹⁰⁰ Additional investments are necessary to create equitable economic opportunities for Native communities.

Large economic disparities exist within Asian American and Pacific Islander communities

The Asian American, Native Hawaiian and Pacific Islander (AANHPI) population in the U.S. is among the fastest-growing and the most diverse, encompassing a large number of origin groups.¹⁰¹ The AANHPI community was hit hard by the pandemic and the economic recession that followed but has made a strong recovery thanks to pandemic relief. Discrimination, fear of violence and high death rates took a toll on the quality of life and economic state of the AANHPI community during the pandemic.¹⁰² Yet, assistance in the American Rescue Plan and other pandemic relief provided necessary support and spurred a

broad-based economic recovery.¹⁰³ By early 2022, the unemployment rate for Asian Americans had fallen to 2.8%, after peaking at 14.3% in 2020. Similarly, only 3.8% of Native Hawaiians and Pacific Islanders were unemployed by early 2022, compared to 9.3% at the pandemic's peak.¹⁰⁴

Aggregate measures of economic well-being mask the diversity of the AANHPI community, causing them to seem uniformly prosperous despite having the highest level of income inequality of any major racial group.¹⁰⁵ For example, Indian Americans' median family income is nearly twice the national median, while refugee populations, such as Malaysian Americans, and colonized populations, such as Native Hawaiians and the indigenous people of the Pacific Islands, are significantly poorer.¹⁰⁶ Similarly, aggregate statistics of educational achievement obscure the low rates of college graduation for Native Hawaiians and Pacific Islanders.¹⁰⁷

The American Rescue Plan included funding that helped Asian Americans, Native Hawaiians and Pacific Islanders, including about \$5 billion in higher education funding for Asian American and Native American Pacific Islander-serving institutions.¹⁰⁸ Expanded premium tax credits under the Rescue Plan helped almost 200,000 previously uninsured Asian Americans, Native Hawaiians and Pacific Islanders once again purchase health insurance.¹⁰⁹

Policies that fight discrimination, further the transition to clean energy and advance research, innovation and manufacturing will help create jobs and economic opportunities for Asian Americans, Native Hawaiians and Pacific Islanders.

Further progress is needed to close the gender wage gap and ensure greater economic opportunity for women

In 2020, women earned 83 cents for every \$1 that men earned on average.¹¹⁰ While the gender pay gap has narrowed in the last 60 years, with the largest improvement occurring during the 1980s, progress has stagnated.¹¹¹ This is particularly true for higher-skill and higher-pay workers. In the last three decades, the U.S. has made as much progress in closing the gender wage gap as was made in the 1980s alone.¹¹²

The gender pay gap is even greater for women of color. While the gender wage gap ratio indicates that women earn 83 cents for each dollar earned by a man, this figure, which refers to the pay disparity between the average man and the average woman, obscures the vast differences in the earnings of women of different races and ethnicities. Black and Hispanic women have the widest pay gap ratio relative to white men, at 63% for Black women and 57% for Hispanic women. White women's gender pay gap ratio is just below the average for all women at 79%.¹¹³

While the gender wage gap has narrowed over the past 60 years, progress towards closing it has stalled, even as vast racial and ethnic disparities remain. Structural solutions that ensure all workers have the care infrastructure they need in order to participate fully in the labor market and that address the systemic devaluing of work done by women will be necessary to fully address this gap.

Access to safe and legal abortion, in addition to being an issue of bodily autonomy and reproductive rights, is also a matter of economic equality and opportunity for women. Many states put unnecessary restrictions on women seeking abortions, restrictions that have no basis in medical science and imperil women's health

and well-being.¹¹⁴ Access to safe and legal abortion increased women's probability of graduating college by 72%.¹¹⁵ The effect was even larger for Black women, whose chances of completing college increased two- to three-fold. Being able to delay motherhood by one year due to access to legal abortion increased women's wages by 11% on average.¹¹⁶ Access to abortion enables people to make the decisions that are right for them and their financial security, which is also essential for advancing broadly shared economic growth.

Older workers face ongoing discrimination in the workforce

Older workers, generally defined as those 55 and above, made up a quarter of the workforce in 2020, but the coronavirus pandemic has pushed a disproportionate share of these workers out of the workforce.¹¹⁷ From April to September of 2020, for the first time in 50 years, the unemployment rate for older workers (55+) was higher than that of mid-career workers (age 35 to 54) in a six-month rolling average.¹¹⁸ In 2021, there were still more than one million unemployed older workers, and nearly half had been looking for work for more than 27 weeks.¹¹⁹

The pandemic also shed light on the erosion in earnings and job quality that older workers had already experienced in recent decades. By 2016, the wage premium for an additional year of tenure had fallen by nearly half from its 2000 peak, and nearly 30% of workers 55 to 64 reported working jobs that required "lots of physical effort" most or all the time.¹²⁰ These outcomes and the growing retirement insecurity that erodes the bargaining power of older workers are exacerbated by age discrimination.¹²¹

Age discrimination not only creates unlawful barriers for older workers in their employment, it also hurts the economy as a whole. Preconceived notions about the capacities and expenses associated

with older workers can make it harder for them to find and retain work.¹²² In 2018, age discrimination of all types is estimated to have cost the United States \$850 billion.¹²³ Without intervention, this cost is estimated to reach nearly \$4 trillion by 2050.¹²⁴

Creating an Older Workers Bureau at the Department of Labor, enhancing retirement security for older workers and enforcing laws against age discrimination would assist older workers and help them continue contributing their talents and wisdom in the workplace.

CHAPTER 3: PRUDENT PUBLIC INVESTMENTS SPUR LONG-TERM ECONOMIC GROWTH AND CREATE ECONOMIC OPPORTUNITIES FOR ALL

The American Rescue Plan was essential to help families weather the immediate impact of the coronavirus pandemic and to jumpstart the economic recovery, but additional investments are needed to sustain long-term economic growth and build shared prosperity for all U.S. workers and families. Investing in child care would reduce costs for families, help parents enter the workforce and improve social mobility. For example, the expanded Child Tax Credit included in the Rescue Plan demonstrated the effectiveness of investments in families for fighting poverty and creating economic opportunities for parents and children.

Investment in infrastructure, innovation and manufacturing will also power long-term economic growth and bring down inflationary pressures. The bipartisan Infrastructure Investment and Jobs Act will help re-build critical infrastructure, creating jobs, reducing costs for businesses and making U.S. infrastructure more resilient to the impact of climate change. Additional funding in research and manufacturing will help spur innovation and continue the boom in manufacturing jobs that started under President Biden. Finally, investments in clean energy will create new jobs, reduce U.S. dependence on fossil fuels and fight the ongoing impact of climate change.

Investing in families and the care economy will create jobs and reduce costs

Investing in the care economy will help working families and create long-term economic growth

Strong labor force participation is a key input to economic growth, but the labor force participation rate in the United States among both men and women has fallen in recent decades.¹²⁵ A critical cause of the decline among women is the lack of structural support for their full economic participation. Because responsibility for providing care continues to fall disproportionately on women, policies such as paid leave and affordable child care would increase women's labor force participation.

Historically, boosting women's labor force participation has had a profound and positive impact on individual, family and overall economic conditions. As more women entered the labor force over the 20th century, a parallel trend emerged: wages for low-income workers fell and stagnated for middle-income workers.¹²⁶ Women's greater participation in the formal labor market has been crucial to making up for this lost household income.¹²⁷ Data from before the coronavirus pandemic showed that two-thirds of mothers in married couples and three-quarters of unmarried mothers were employed outside the home.¹²⁸ Policies that support families and women's full participation in the labor market, such as paid leave and child care, are crucial to strong, stable economic growth.

Investments that boost women's labor force participation rates would generate not just stronger economic outcomes for their families, but the entire economy. Estimates show that investing in early childhood education alone can have large economic returns, yielding up to \$9 in future gains for every \$1 invested in the current system and creating significant benefits both for participating families and the economy as a whole.¹²⁹ Inadequate access to paid leave and affordable child care reduces U.S. GDP by \$650 billion—2.9% of total GDP—every year because women

are kept back from the workforce, according to analysis by the National Partnership for Women and Families.¹³⁰

Care economy investments will boost social mobility and raise incomes for millions of people

Investing in affordable child care is not only important for boosting labor force participation today, it is also important for improving workforce productivity and workers' wages in the future.

Ensuring that children receive quality care, attention and education in their early years sets them on a path to better educational, health and economic outcomes far into the future. Investment in early childhood supports the social and cognitive developments that underlie the skills that are rewarded in life.¹³¹ Research has found that children who attend preschool grow up to be healthier, better educated and more productive workers who pay more in taxes and are less likely to be involved in the criminal justice system or to access income support programs than those who did not attend preschool.¹³² Preschool attendees also have higher lifetime earnings, a key metric of upward mobility, and go on to earn as much as 60% more than their peers who did not attend preschool.¹³³

The expanded Child Tax Credit proved to be an enormously effective tool for helping families, children and the economy

The Child Tax Credit (CTC) expansion included in the American Rescue Plan was one of the largest-ever single-year tax cuts for families with children. The Rescue Plan made the CTC fully refundable and dramatically increased the value of the credit from \$2,000 per child to up to \$3,600 per child under age 6 and \$3,000 per child between ages 6 and 17. Advance payments of the expanded CTC, paid out in monthly installments for six months in

2021, helped more than 61 million children from over 36 million families.¹³⁴ Changes to the CTC made under the Rescue Plan enabled many previously ineligible low-income families to receive the full credit and put money in the pockets of working families to pay for household expenses.

The expanded CTC was the primary driver of record-low child poverty levels in 2021. The expanded CTC, alone, reduced monthly child poverty by 30% and is credited with keeping 3.7 million children out of poverty while the policy was in effect.¹³⁵ More than 80% of the CTC's poverty reduction came from making the credit fully refundable for families with little or no income.¹³⁶

Real-time Census Household Pulse Survey data showed that advance CTC payments provided much-needed income support to families. Most spent their advance CTC payments immediately on household necessities, such as food and rent, or used the payments to pay off debt. Similarly, families who received the CTC portions of their 2021 federal tax refunds used the funds to pay off debt or cover household necessities soon after receiving them.¹³⁷

Economic research has shown how the CTC would generate economic benefits for society as a whole if made permanent. Columbia University researchers found that child allowance policies, including the expanded CTC, generate “very high net returns for the U.S. population.”¹³⁸ The researchers also estimated that a permanent expansion of the CTC would cost \$97 billion per year and generate social benefits of \$982 billion per year—or \$10 in benefits for every \$1 of investment.

Investments in infrastructure, innovation and manufacturing will improve economic productivity and create jobs

The bipartisan Infrastructure Investment and Jobs Act will rebuild America's crumbling infrastructure

Investments in infrastructure, innovation and manufacturing will help power long-term economic growth and bring down inflationary pressures. The bipartisan Infrastructure Investment and Jobs Act, which President Biden signed into law in November 2021, will help create jobs and strengthen the economy by facilitating these types of investments.

The bipartisan infrastructure law invests \$550 billion to help reverse decades of underinvestment in American infrastructure. Recent Joint Economic Committee analysis showed that federal infrastructure investment over the past two decades regularly fell below 3% of total federal spending. In comparison, federal investment in infrastructure often exceeded or came close to 5% of total federal spending before 1980.¹³⁹

According to the Economic Policy Institute, over the next decade, the bipartisan infrastructure law will support approximately 772,000 jobs per year.¹⁴⁰ Investments in roads, bridges, freight rail, airports and cargo ports will strengthen supply chains and improve productivity, which will advance sustained economic growth and reduce long-term inflation.

Investing in innovation and research is essential for keeping the United States economically competitive

Congress is also considering bipartisan innovation legislation—the America COMPETES Act passed by the House and the United States Innovation and Competition Act (USICA) passed by the Senate—that would make critical investments for U.S. economic

growth and for U.S. competitiveness in the global economy.¹⁴¹ The bipartisan innovation bills would address vulnerabilities in U.S. supply chains that were highlighted by the coronavirus pandemic. This legislation would invest in supply chains for critical technologies, such as semi-conductors, and would support all stages of critical technology production in the United States, beginning with cutting-edge research and continuing through to domestic manufacturing. The bills would also improve the United States' competitive edge internationally by spurring innovation and harnessing it to create new jobs, companies and industries.

Research and technological innovation, especially in areas such as advanced manufacturing, are foundational for future economic growth.¹⁴² From basic research to technological development to entrepreneurship, new products and approaches can support new businesses or entire industries, which leads to improved living standards and economic development. The bipartisan innovation legislation would help keep the United States on the cutting edge of technological development, which includes developments in artificial intelligence, quantum computing, biotechnology and advanced energy.

Addressing climate change is critical to safeguarding America's economic well being

Addressing climate change will help drive economic growth, while also protecting families from the dangers and costs of extreme weather. Dramatically cheaper clean technology, along with energy security concerns, amplify the economic benefits of transitioning away from fossil fuels. The cost of inaction rises each year, and the benefits of acting on climate change have never been greater than they are today.

Climate change will have major social and economic consequences for the United States.

The economic cost of inaction on climate change is large and growing. Climate change is already making costly extreme weather events more common: In 2020, extreme weather disasters cost almost \$100 billion and, in 2021, extreme weather costs increased almost 50% to nearly \$150 billion.¹⁴³ Warmer temperatures also weaken major drivers of economic growth by lowering labor supply, constricting workers' productivity and cutting family incomes.¹⁴⁴ Extreme weather also creates feedback effects that destabilize energy markets and raise costs for heating and electricity.¹⁴⁵

Inaction on climate has already exacerbated the number of incidences of extreme weather and will lead to more devastating impacts on communities across the United States, disproportionately harming marginalized and low-income communities. Hispanic Americans face disproportionate earnings risk from climate change, while Black Americans are 40% more likely to live in areas with the greatest expected increases in mortality due to climate change.¹⁴⁶

Investments in clean energy will reduce costs for families and fight climate change

Innovation in clean energy technology has dramatically reduced the cost of transitioning away from fossil fuels, which is necessary to lowering costs for families and increasing energy security. The cost of solar power has gone down significantly in the past decade; while wind power is already one of the lowest-cost energy sources available.¹⁴⁷ As global supply chain disruptions and Putin's invasion of Ukraine have pushed up energy prices around the world, the cost advantages of clean energy have only grown.¹⁴⁸

Investments in clean energy production and transmission will allow for more clean energy to reach families, while electrifying homes will reduce costs and bring down carbon emissions.¹⁴⁹

Moving towards clean-energy transportation will help reduce costs for families while fighting climate change. Investments in electric vehicle charging infrastructure will allow more families to drive without emitting climate warming fumes or paying for gas. Electric vehicles insulate drivers from gas price volatility and are already reducing oil consumption by 1.5 million barrels per day worldwide.¹⁵⁰ The battery technology that has been a choke point for electric vehicle expansion has also seen dramatic cost declines over the last decade, with Lithium battery prices falling 89% since 2010.¹⁵¹

The bipartisan Infrastructure Investment and Jobs Act makes enormous strides in clean energy transmission, climate resilience and clean transportation. The bipartisan legislation will invest \$73 billion in clean energy transmission, which includes researching, building and expanding resilient transmission and electricity distribution technologies and clean renewable energy.¹⁵² The Economic Policy Institute estimated that the bipartisan legislation will support more than 81,000 jobs each year related to power infrastructure.¹⁵³ The legislation also invests \$39 billion to expand and modernize public transit, \$7.5 billion to build out a national network of electric vehicle chargers and \$5 billion to deliver zero and low emission school buses nationwide.¹⁵⁴

CHAPTER 4: THE STRONG ECONOMIC RECOVERY AND A FAIRER TAX CODE CREATE THE FISCAL SPACE FOR PUBLIC INVESTMENTS

The U.S. fiscal picture has improved significantly under President Biden

Under President Biden, the federal government's budget deficit has been reduced, and the U.S. fiscal picture has improved significantly. In just the first year of the Biden administration, the federal budget deficit was reduced by more than \$350 billion. According to estimates from the Treasury Department, the budget deficit is expected to fall by \$1.5 trillion in fiscal year 2022, which would be the largest one-year decrease in the deficit in U.S. history. The Treasury Department expects to pay down the national debt held by the public this quarter, which has not occurred since 2016.¹⁵⁵

Recent analysis from the Congressional Budget Office (CBO) showed that the budget deficit during the initial seven months of fiscal year 2022 was approximately one-fifth of the level during the same time frame in the previous fiscal year, with revenues up 39% (\$843 billion) and outlays down 18% (\$729 billion).¹⁵⁶ CBO projects that the budget deficit will drop from \$2.8 trillion to \$1.0 trillion in 2022, and will continue to decrease in 2023.¹⁵⁷

Making the tax code fairer would support strong economic growth

Increasing the taxes that big corporations and the wealthy pay would help drive economic growth by funding investments in infrastructure and working families, while incentivizing reinvestment of capital in more economically productive activities.¹⁵⁸ A fairer tax code would lower costs for middle- and

lower-income households, increase productivity and bring down inflationary pressure.

Economic data and research clearly show that revenue-raising tax provisions that make the tax code fair and progressive are consistent with strong, broadly shared economic growth. Similarly, evidence from tax cuts on the wealthy and big corporations have failed to produce additional investment or wage growth.¹⁵⁹ This holds true because investors continue to look for the highest return, and economic growth is not affected by increased taxes on capital.¹⁶⁰ Data from U.S. states show that tax cuts at the federal level for the bottom 90% of earners can boost job growth, but tax cuts for the top 10% do not.¹⁶¹

The U.S. income tax code violates many of the basic tenets of a fair tax system, allowing many big corporations and wealthy individuals to get away with paying little to nothing in federal income taxes. For example, the Institute on Taxation and Economic Policy found that 55 of the largest U.S. corporations paid no federal corporate income taxes in 2020. Similarly, reporting from *ProPublica* revealed that the country's wealthiest individuals pay little to nothing in personal income taxes.¹⁶² A fair tax system would ensure low- and middle-income Americans do not pay more in taxes than many big corporations or wealthy individuals.

Asking big corporations to pay their fair share would level the playing field of U.S. businesses

To make the tax code fairer, the Biden administration has proposed changes to corporate income taxes. Notably, President Biden proposed increasing the corporate income tax rate from 21% to 28%.¹⁶³ The President's proposed rate is still substantially lower than the 35% top corporate tax rate that was in place for several

decades, including during the economic boom of the 1990s. Raising the corporate income tax rate will increase tax progressivity and reduce income inequality, while raising revenue for infrastructure and other proposals that are needed to sustain broadly shared economic growth.

Additionally, the Biden administration won international backing from nearly 140 countries for a 15% global minimum tax.¹⁶⁴ The agreement would prevent large companies from shifting their profits to tax havens by requiring them to pay taxes in the places where their products are sold. The global minimum tax of 15%, instituted on a country-by-country basis, would end incentives for U.S. corporations to shift profits and jobs abroad. This outcome is ensured by other countries' commitments to abide by the agreement. These tax changes would level the playing for domestic businesses to compete with large, multinational corporations and would end the race to the bottom in international corporate taxation.

Making the individual income tax code fairer would reduce income inequality while promoting economic growth that is broadly shared

President Biden has also proposed a number of changes to the individual income tax code to ensure that the wealthy pay their fair share. Last year, the Office of Management and Budget and the Council of Economic Advisers estimated that billionaires paid an average federal tax rate of just 8.2% between 2010 and 2018.¹⁶⁵ To make the federal income tax more fair, the President proposed a billionaire minimum income tax, which would impose a 20% minimum tax on households with more than \$100 million in assets.¹⁶⁶ In addition, President Biden's proposal would tax both wage income and unrealized gains, such as stock growth.¹⁶⁷ If enacted, this tax would fall largely on the country's more than 700

billionaires. The White House estimates that this proposal would raise \$360 billion in new revenue over the next 10 years.¹⁶⁸ President Biden also proposed taxing unrealized gains at death to prevent the wealthiest Americans from sidestepping billions of dollars in taxes and to stop incentivizing the holding of assets for tax avoidance.¹⁶⁹

Increased funding for tax enforcement will help raise revenue and ensure greater tax fairness

Increasing enforcement of federal tax policies will help ensure that all taxpayers, regardless of income, actually pay what they owe. The complexity of the current tax system has made it easier for wealthy taxpayers to hide portions of their income from the Internal Revenue Service (IRS), thereby facilitating tax avoidance. As a result, the tax burden in this country falls disproportionately on those whose income is derived largely from wages because wage information is reported automatically to the IRS. Taxpayers who derive income from other sources, such as capital gains, tend to be the wealthiest Americans and are better positioned to underreport their income to avoid paying taxes. The gap between federal tax owed and what is actually paid—called the tax gap—is estimated to cost the federal government approximately \$600 billion a year.¹⁷⁰

As a result of chronic disinvestment in the IRS, audit rates on those making over \$1 million per year have fallen by more than 60% over the last decade.¹⁷¹ This low audit rate has led to a two-tiered tax system: one for the wealthiest Americans and one for everybody else. Investing in additional enforcement would enable the IRS to focus on pursuing only those with income greater than \$400,000, as the President has proposed.¹⁷² President Biden has called for providing the IRS with additional enforcement power and an extra \$80 billion over the next 10 years to help crack down

on tax evasion by high-earners and large corporations.¹⁷³ Studies have shown that investments of this magnitude could generate more than \$2 trillion over the next two decades.¹⁷⁴ The Treasury Department specifically found that these reforms would raise \$1.6 trillion in the second decade because investments in the IRS would need several years to reach their ultimate payoff.¹⁷⁵ In addition, reforms that protect, empower and reward whistleblowers who report tax fraud would complement the enforcement powers of the IRS and deter tax evasion. Revenue raised through increased tax enforcement would bring down the federal budget deficit and would be spent on programs that would dampen long-term inflationary pressures.

CONCLUSION

The United States has experienced a strong economic recovery from the coronavirus pandemic, but long-standing economic disparities remain and new challenges to broad-based economic growth lie ahead. Because of the strength of the recovery, the United States is well positioned to overcome current and future challenges to build shared economic prosperity for all. Policies that invest in the care economy, rebuild infrastructure, spur innovation and transition the United States to clean, renewable energy will sustain economic growth over the long term and address real problems facing U.S. workers and families.

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¹⁶² Matthew Gardner and Steve Wamhoff, “55 Corporations Paid \$0 in Federal Taxes on 2020 Profits,” Institute on Taxation and Economic Policy, April 2, 2021, <https://itep.org/55-profitable-corporations-zero-corporate-tax/>; Jesse Eisinger, Jeff Ernsthausen and Paul Kiel, “The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax,” *ProPublica*, June 8, 2021, <https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax>.

¹⁶³ U.S. Department of the Treasury, “General Explanations of the Administration’s Fiscal Year 2023 Revenue Proposals,” March 2022, <https://home.treasury.gov/system/files/131/General-Explanations-FY2023.pdf>.

¹⁶⁴ Jeff Stein and Seung Min Kim, “Biden, other G-20 world leaders formally endorse groundbreaking global corporate minimum tax,” *The Washington Post*, October 30, 2021, <https://www.washingtonpost.com/us-policy/2021/10/30/biden-g20-global-minimum-tax/>.

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¹⁷³ U.S. Department of the Treasury, “The American Families Plan Tax Compliance Agenda,” May 2021, <https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>.

¹⁷⁴ Natasha Sarin and Larry Summers, “Shrinking the Tax Gap: Approaches and Revenue Potential,” National Bureau of Economic Research, Working Paper 26475, November 2019, <https://www.nber.org/papers/w26475>; Charles O. Rossotti, Natasha Sarin and Lawrence H. Summers, “Shrinking the Tax Gap: A Comprehensive Approach,” *Taxnotes*, December 15, 2020, <https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht>.

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VIEWS OF RANKING MEMBER MIKE LEE

The *Employment Act of 1946* created the Joint Economic Committee and tasked it with promoting “maximum employment, production, and purchasing power” as the central goals of economic policymaking. Constrained by the limited Government set up by our Constitution and guided by free and competitive enterprise, these goals are the bedrock of a sound economic and fiscal policy—they are essential to the American pursuit of a more prosperous future.

In 2021, President Biden’s incoming Administration implemented policies that slowed employment, stalled production, and eroded purchasing power—in short, policies that achieved precisely the opposite of these stated policy goals. The *2022 Economic Report of the President* deflects responsibility for the harm these policies unleashed on American families through rising prices, suppressed employment, and insufficient economic growth. It instead articulates an explicitly political agenda that is at odds with once shared goals for allowing the American economy to thrive. Our *Response to the Economic Report of the President* assesses the state of the economy and reviews the policy choices that shaped the current state of inflation, employment, growth, and related measures of social well-being.

Beginning in 2021, the Biden Administration’s excessive and reckless fiscal policy stoked the highest inflation rate the United States has seen in four decades. Inflation gnawed away at Americans’ wages, savings, and aspirations as households faced rising costs for groceries, housing, gasoline, and other basic goods. These surging prices did the most harm to poor and middle-class households who spend the greatest share of their income on essentials. As of April 2022, the inflation that has occurred will

cost the average American household more than \$6,800 over the next year.

The same policy choices obstructed Americans' reentry into the labor market and slowed the return to full employment following the COVID-19 recession. Expanded benefits across a range of pandemic programs discouraged Americans from reconnecting to work. Vaccine mandates prohibited work for some unvaccinated Americans, school closures made it more difficult for parents to work, and cash transfers enabled non-work. Low-wage workers and historically disadvantaged Americans, who enjoyed unprecedented gains in the pre-pandemic economy, once again fell behind. Measured against the pre-pandemic trend, more than 6 million workers are currently missing from the labor market due to policies that discouraged work.

Policies that expanded the size and scope of Government and its involvement in private sector decision-making held back the pace of economic production. The Administration's agenda of increasingly costly regulations, spending, and taxes stifled new growth, halted investment, and diminished business confidence. These policy choices ignored the lessons of the pre-pandemic economy, where tax cuts and deregulation led to sustained economic growth, record high median income, and record low poverty rates for every race and ethnic group.

Equally concerning, policies that proliferated economic and social restrictions in the wake of the pandemic took a dramatic toll on America's institutions of social capital. Social capital is an often-overlooked foundation for economic growth and strong labor markets, describing the strength of relationships across family, communities, and workplaces. Many Americans lost access to the social support networks that come from schools, churches, volunteer organizations, and community groups. Drug overdose

deaths spiked, violent crime rose, and marriage rates fell. School closures caused learning losses that disproportionately harmed the youngest and lowest-income students.

I have tasked my staff at the Joint Economic Committee with advising Congress on policies to increase social capital through reconnecting Americans to work, improving investment in youth, making it more affordable to raise a family, increasing family stability, and rebuilding civil society. Our *Response* assesses the ways that the Biden Administration's agenda impoverished these dimensions of our economic, social, and institutional life.

The Biden Administration's harmful policy choices highlight an important truth—Americans benefit from a climate of lower taxes, less regulation, and more freedom. The current state of the economy leaves no question that we must rein in the Government spending that erodes Americans' purchasing power, remove the disincentives that discourage Americans from work, reduce the regulatory barriers that slow the pace of growth, and enable more people to reconnect with the social relationships that provide life with meaning and purpose.

I hope the recommendations contained in this *Response* will serve as a starting point for policymakers on how we can remove Government barriers to Americans' freedom, restore full employment, production, and purchasing power, and empower Americans to achieve a future where families of all types prosper.

CHAPTER 1: THE IMPORTANCE OF DEFINED GOALS FOR SOUND ECONOMIC POLICY

The economic policy of the United States should be grounded in common goals rooted in the American ethos. The Council of Economic Advisers (CEA) and the Joint Economic Committee (JEC) are institutions designed to do just that, promote the once near universally shared goals of maximum employment, production, and purchasing power. Agreement on these goals allows Congress and the President to formulate a coherent fiscal policy for the nation.

To this end, our *Response to the Economic Report of the President* (hereafter “*Response*”) assesses progress in achieving each of the goals set forth in the *Employment Act of 1946* (hereafter “*Employment Act*”). Chapters 2–4 focus on the goals of the *Employment Act* to promote employment, production, and purchasing power. Chapter 5 highlights recent trends in social capital, a central but often overlooked factor underlying economic growth and general well-being. Social capital describes the strength of relationships across family, communities, and workplaces that are the foundation of prosperous nations.¹

While economic policy has always been fraught with disagreements on how to achieve a more prosperous future, until recently, debates were bounded by the measurable, shared goals of the *Employment Act*. After being late in their submission to Congress, the President’s Budget and the *Economic Report of the President* (hereafter “*Report*”) represent a concerning departure from the *Employment Act*’s defined economic policy goals. By no longer conforming to the consensus goals for economic policy, Congress and the President have very little to guide the budget process and the resulting fiscal policy of the nation.

This chapter outlines the history of JEC’s legislative mandate and the important role the Committee plays in the budget process and

informing economic policy more broadly. It then describes how attention to the goals of the Employment Act has diminished in recent decades, contributing to persistent budget deficits, a broken budget process, and incoherent economic policy. Returning to measurable economic policy goals is key to setting up Americans for a future of robust economic growth.

The JEC's Legislative Mandate

In 1946, President Harry S. Truman signed the Employment Act, establishing a national policy focused on promoting employment, production, and purchasing power:

The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government...to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.²

The Employment Act requires the President to transmit to Congress the *Report* each year, reporting on progress in promoting employment, production, purchasing power, and the policies that could further these goals. The Employment Act established two new agencies to carry out this function: The CEA advises the President in drafting the *Report* and in recommending policies that promote the objectives of the Employment Act; the JEC, comprised of members of the Senate and House, evaluates the *Report* and advises Congress on policies that promote the objectives of the Employment Act.³

The Employment Act was later amended by the *Full Employment and Balanced Growth Act of 1978* (also known as the Humphrey-Hawkins Act). This act supplements the Employment Act with additional goals, including increasing real income, achieving balanced growth, reducing the Federal deficit, and improving the trade balance by increasing exports through free and fair international trade. The JEC is directed to continue its role in informing Congress, through hearings and reports, and evaluating the policies set forth in the *Report*.⁴ This is in addition to the responsibility of the JEC to provide its “views and estimates” of the President’s Budget as set forth by the *Congressional Budget Act of 1974*.

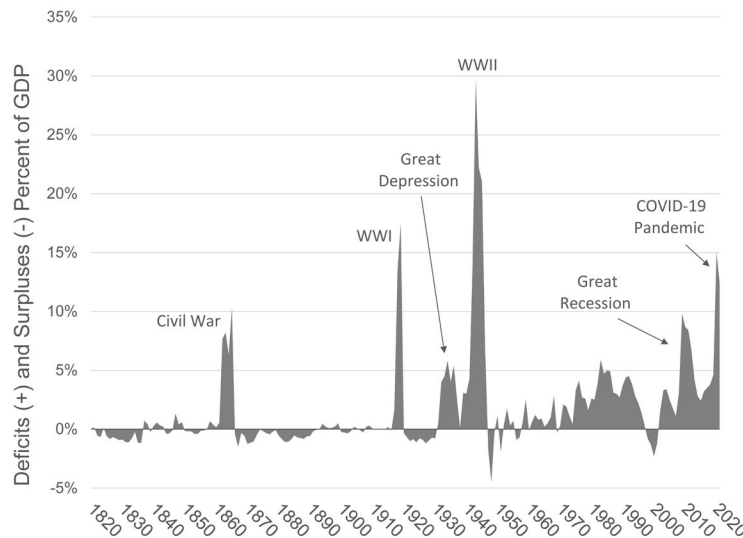
The Importance of Defined Goals in Economic and Fiscal Policy

The Employment Act marked a turning point for U.S. economic and fiscal policymaking. The first 150 years of American budgeting was characterized by balanced budgets. Following the Great Depression and World War II, balanced budgets were replaced with a mandate for macroeconomic management to meet the goals of maximum employment, production, and purchasing power. For more than half a century since the Employment Act was passed in 1946, these defined goals helped guide economic policy and helped constrain the Federal Budget.

The early era of balanced budgets was the product of at least two forces. Throughout the 19th century, U.S. debt was still considered relatively risky and was thus a costly way to finance Government operations.⁵ It was also widely believed that Government debt enriched the wealthy who purchased the bonds, at the expense of the taxpayers who have to pay back the debts.⁶ In the early 1900s, these two forces began to break down. U.S. debt became a relatively attractive asset in the early 20th century that was then solidified in 1944 as part of the Bretton Woods system.⁷ This lowered the cost of Federal borrowing around the same time public opinion became more accepting of Federal debt.

Figure 1-1 shows U.S. budget deficits and surpluses between 1820 and 2021. Before the Great Depression, deficits were rare, occurring in only one-third of years, primarily due to wars. There was a clear shift in the 1930s, after which deficits became increasingly more prevalent and the surpluses necessary to pay down the accumulated debt became less prevalent. After 1930, the Federal Government ran a deficit in 86 percent of years.

Figure 1-1: Federal Deficits and Surpluses as Percent of GDP, 1820-2021



Source: JEC Calculations; Office of Management and Budget, Historical Tables, Table 1.2, Budget of the United States Government: Fiscal Year 2023; Cambridge University Press, Historical Statistics of the United States, Millennial Edition Online, 2006.

Government debt lost some of its taboo as a new school of economic thought advanced by John Maynard Keynes gained popularity in the 1930s. The pre-Keynesian norm was that Government spending should be financed by contemporaneous taxation and that debt was only to be used in extraordinary circumstances. Keynes advocated for more active macroeconomic management. He prescribed running budget deficits during recessions to increase aggregate demand and reduce fluctuations within the business cycle.⁸ Beginning in the Great Depression, the

Keynesian economic theory was put into practice. President Franklin D. Roosevelt's 1940 budget explains that he would deliberately use "Government funds and Government credit to energize private enterprise."⁹ Embracing Government spending as a tool of economic management further undermined the political consensus against systemic Government debt.

Following the Keynesian revolution, U.S. budgeting became a tool for business cycle management. Widespread fears of mass unemployment following soldiers' return from World War II set the stage for what would become the Employment Act. In committing the Federal Government to managing the economy, the Employment Act officially abandoned the historical constraint on deficit spending but replaced it with agreed upon, measurable goals for fiscal policy: stable prices, full employment, and economic growth. The Employment Act also created two institutions (the JEC and CEA) to help measure, study, and promote these goals. While not as binding as a political preference for balanced budgets, shared economic goals can nonetheless provide some concrete criteria by which to decide which policies the nation should pursue.

Defined Goals Allow Debate on the Means

Business cycle management creates competing camps of economic policymaking, with different prescriptions for reaching the defined economic goals. The Employment Act's legislative evolution illustrates how there can be consensus around a goal, like full employment, while disagreeing on the best means to get there: Government guarantees on the one hand, or reliance on the private sector on the other. For example, the original legislative proposal for the Employment Act aimed to establish full employment as a "right" to be guaranteed by the Federal Government.¹⁰ The resulting legislative compromise removed language that committed the Federal Government to providing jobs, focusing instead on meeting the goal of maximum

employment “in a manner calculated to foster and promote free competitive enterprise.”¹¹ The later amendment of the Employment Act by the Humphrey-Hawkins Act shows a similar agreement on the core economic goals while still disagreeing over the means of attaining them.¹² By setting goals rather than describing the means, the legislation allows the debate over how best to reach the goals set out in the Employment Act to become an empirical question, not necessarily one of values or world view.

The history of the JEC itself has also often demonstrated how the debate over the best ways to meet economic policy goals changes over time, as evidence evolves and political preferences shift. In the 1950s, the JEC was known as a “hotbed of Keynesian economics.”¹³ However, in 1979 and 1980 the JEC released annual reports with all Majority and Minority members signing on to shared economic policy priorities. In the face of high inflation, these reports departed from Keynesian orthodoxy and advanced bipartisan support for supply-side tax cuts, “a steady reduction...of government spending,” and a “deemphasis of macroeconomic fine tuning” to meet the Employment Act goals. The Democrat views in the following year’s 1981 report (which returned to the norm of separate Majority and Minority sections), were still interpreted as supporting President Ronald Reagan’s proposed tax cuts, according to 1983 JEC Executive Director Bruce Bartlett.¹⁴ These episodes illustrate that when guided by concrete and measurable goals, competing economic policy models can coexist, and even shift back and forth as economic conditions, theory, and evidence change.

All of this is not to claim that agreement on the goals of economic policymaking is sufficient on its own to successfully implement policies that promote maximum employment, production, and purchasing power. Countercyclical macroeconomic management to promote full employment and price stability necessarily runs deficits in times of crisis and surpluses in later years to balance the budget over time. Persistent post-1930 budget deficits show that

countercyclical economic management can be difficult to implement successfully because politicians face strong incentives against cutting spending and raising taxes to pay down Government debt, even in times of economic growth.¹⁵ Thus, for policymakers who prize free markets and a limited Federal Government, the Employment Act is a sort of Faustian bargain that traded the system that had previously constrained the growth of Government for one that is biased in favor of a more active and powerful state. However, the concrete goals for economic policy in the Employment Act did provide a new type of constraint that, when followed, can help manage the impulse to deficit spend.

Lost Economic Consensus in the 2022 Report

Over the past couple of decades, the economic policy consensus represented in the goals of the Employment Act has slowly eroded. Without shared goals, Congress and the President have very little to guide economic policy and even less to constrain the budget process. Instead, politicians increasingly view economic policy as a cudgel against disfavored activities and a subsidy for things they want to promote. One symptom of this lost consensus can be seen in the quickly ballooning deficits after 2001, what economist and budget historian Paul Winfree calls “the real end to balanced budgets.”¹⁶

The *Report* exemplifies this lost consensus on the economic goals of inflation, employment, and economic growth. For example, the *Report* largely ignores the causes and consequences of the persistently high inflation rate that was apparent a full year before publication (Chapter 2). It does discuss the labor market but in misdiagnosing the key challenges American workers are facing, the *Report* largely ignores the fact that the labor market is not yet back to full employment due to weak labor supply (Chapter 3). On economic growth, the *Report* frames the Administration’s overall agenda as one that will “improve U.S. economic outcomes and expand U.S. productive capacity, both now and over generations

to come.”¹⁷ However, the *Report* is most focused on goals that are often at odds with, and at best adjacent to, the goals agreed upon in the Employment Act (Chapter 4).

The *Report* focuses largely on metrics of race, gender, equity of outcomes, and environmental indicators. A search of the text reveals that race (95 instances), gender (127 instances), inequality (147 instances), and carbon (105 instances) are each mentioned more often than inflation (86 instances). The *Report’s* section on “Progressive and Equitable Tax Policy” considers significantly higher taxes on investment income to meet goals of “racial and ethnic equity in the tax code.”¹⁸ Nowhere does it consider the economic consensus that tax increases reduce economic growth.¹⁹ Even more brazenly, the *Report’s* section on “Accelerating and Smoothing the Clean Energy Transition” identifies a goal that it explicitly acknowledges will have large and unequal economic costs to communities across the United States from penalizing industries that rely on carbon-based energy sources. The *Report* claims the costs of reaching its goal of decarbonization can be offset by other policies. However, by pursuing a goal that does not enjoy consensus and, more importantly, that would undermine the consensus goals of the Employment Act, the *Report* turns economic policymaking into a political instrument rather than a shared tool for maximizing production, employment, and purchasing power.

In conjunction with veering away from the consensus goals of economic policymaking in the *Report*, the Biden Administration has failed to provide the specific information needed to evaluate the core economic policies in its Budget. The Administration’s Build Back Better agenda is conspicuously missing from the President’s Budget proposal. Instead, it includes a nondescript deficit-neutral reserve fund that obscures the difficult political, economic, and budgetary decisions involved in detailing specific proposals. Because the Budget does not describe a specific set of policies or the anticipated effects of its proposals on revenues and

outlays, it renders the Budget uninformative for assessing the economic impact of the President's agenda.

Other than a general desire to expand the Federal Government, the Budget and the *Report* present no coherent theory for why the Federal Government should spend \$5.8 trillion in 2023 or a limiting principle for why we would not spend an additional \$5.8 trillion or more. Until recently, politicians in both parties relied on similar economic goals to provide criteria by which to weigh the costs and benefits of fiscal policy. Without shared goals, the budget and fiscal policymaking process breaks down.

Breakdown of the Budget Process

Another symptom of the lost consensus on the shared economic policy goals enumerated in the Employment Act is the breakdown of the Congressional budget process.

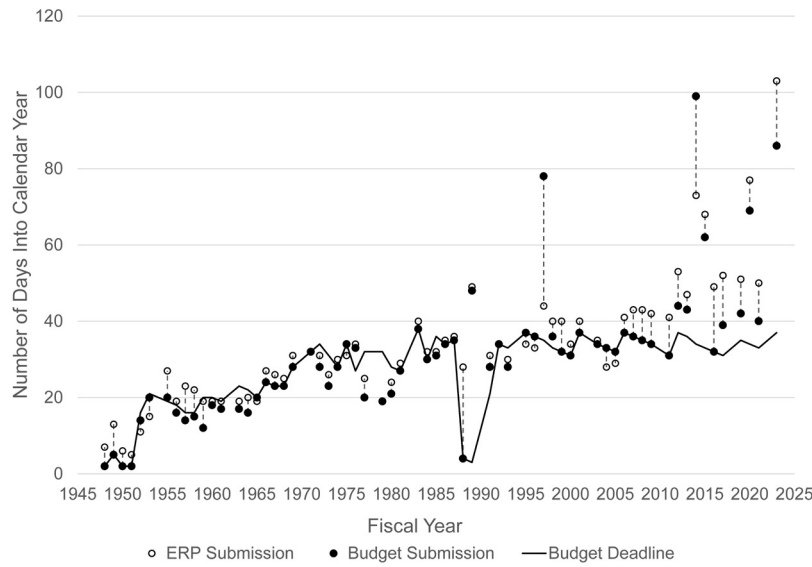
The Constitution delegates the “power of the purse” to Congress but the process by which Congress formulates the annual budget is the product of a long historical evolution of different laws, rules, and customs. Under the *Congressional Budget and Impoundment Control Act of 1974*, the President initiates the budget process by submitting a budget to Congress no later than the first Monday in February.²⁰ The President's Budget lays out the Administration's priorities but is only a request to Congress, not a binding document. The *Report* is intended to be a supporting document to the President's Budget, explaining how the Budget assures the goals of the Employment Act are met. The *Response* and the JEC's views and estimates of the Budget are intended to inform how Congress proceeds with its budget process.

Following the President's proposal, Congress then adopts a concurrent resolution on the budget to establish the Federal Government's aggregate spending and revenue policies. The Budget and the accompanying *Report* and *Response* are intended to explain the economic policy for the country and provide a

framework for the annual appropriations process, revenue measures, direct spending legislation, and debt management. Unfortunately, the budget process has broken down over the past several decades. Congress has relied on “deeming provisions” to set enforceable spending levels instead of completing the more deliberative traditional budget process.²¹

Missed deadlines are one example of the broken budget process and illustrative of the lost consensus around the need to set a coherent national economic policy. A timely budget is reflective of current economic conditions and affords policymakers and the public the opportunity to evaluate its assumptions and effectiveness at meeting its goals. Before 1989, the budget was late only two times. Since then, late budgets have increased in frequency and length of delay, as shown in Figure 1-2.

Figure 1-2: Budget Deadline, Submission of Budget, and Submission of Economic Report of the President, by Number of Days into Calendar Year, 1948–2023



Source: White House Council of Economic Advisers, *Economic Report of the President*, 1947–2022; United States Office of Management and Budget, *Budget of the United States Government*, 1947–2022; Congressional Research Service, 2016: “The President’s Budget: Overview of Structure and Timing of Submission to Congress.”

Notes: ERP is Economic Report of the President. Presidential transition years (Fiscal Years 1954, 1962, 1970, 1978, 1982, 1990, 1994, 2002, 2010, 2018, and 2022) are not shown.

President Biden submitted his Budget for Fiscal Year 2023 on March 28, 2022, nearly two months after it was due. Excluding presidential transition years, the 2023 Budget is the second-latest budget in history. President Biden transmitted his 2022 *Report* on April 14, 2022, delivering the *Report* later in the year than any other. The 17 days between the release of the Budget and the Economic Report also violated statute requiring the President to transmit the Economic Report no more than 10 days after filing the budget (see 15 U.S. Code Section 1022). This was the third time the 10-day deadline for transmitting the *Report* was missed since being imposed starting in Fiscal Year 1992, with deadlines also missed in Fiscal Years 2017 (13 days) and 2016 (17 days).

Economic policy has always been fraught with disagreements on the means of achieving a more prosperous future. The JEC and CEA have played an important and sometimes pivotal role in informing those debates. But increasingly, policymakers have ignored the pursuit of the measurable, agreed upon goals of the past and instead seek to use economic policy to advance more partisan ends. To help refocus Congress on sound economic policymaking, Winfree suggests that the *Report* and the *Response* could be more formally incorporated into the budget process, requiring Congress to agree on its shared economic goals before drafting the budget resolution.²² Without regaining a consensus on the core goals of economic and fiscal policy, we risk undermining the good faith and credit of the United States Government and the foundation that makes America the strongest and most prosperous economy in the world.

Refocusing on Measurable Economic Goals

In our response to the *Report*, we seek to refocus the economic policy debate around the core goals of the Employment Act: promoting purchasing power, employment, and production. In doing so, we follow the precedent set following the Employment Act's passage in 1946. President Harry Truman organized the very first Economic Report in 1948 around the themes of purchasing power, employment, and production. Later in 1962, President John F. Kennedy reasserted the importance of focusing on these core goals in his first *Report*:

The framers of the Employment Act were wise to choose the promotion of "maximum employment, production, and purchasing power" as the keystone of national economic policy. They were confident that these objectives can be effectively promoted "in a manner calculated to foster and promote free competitive enterprise and the general welfare." ²³

Refocusing on these goals is especially urgent this year given the challenges faced across all dimensions of the U.S. economy. Inflation reached its highest level in over 40 years, the labor market is more than 6 million workers short of the pre-pandemic trend, and economic production is at serious risk of a contraction due to the inflationary consequences of poorly timed fiscal stimulus. The failure of the *Report* to fully acknowledge these challenges or the role of the Biden Administration's policies in fueling them is troubling. Our response analyzes these problems, their causes, and ways to address them.

The *Response* also recognizes a central but often ignored factor underlying economic progress: social capital. Social capital is the strength of relationships across family, communities and workplaces that allow individuals and the economy to thrive. During the pandemic, social capital has taken a major hit, in part due to Government policies. Homicides increased by 27 percent in 2020. During the 12-month period ending October 2021, more than 104,000 people died of a drug overdose, the highest level ever recorded. Children were kept out of schools, and core community institutions have weakened. Because social capital is indispensable to the goals of economic policy, including employment and economic growth, we focus on this often-overlooked factor in the *Response*.

Our *Response* proceeds as follows: Chapter 2 reviews purchasing power. Chapter 3 reviews employment. Chapter 4 reviews production. Chapter 5 reviews social capital.

CHAPTER 2: PURCHASING POWER

In the first *Response* written in 1948, the JEC warned President Truman and his CEA to consider the inflationary consequences of large Government spending packages. In the JEC's words:

It is interesting to us both here and throughout the report the President wholly fails to give any weight to the tremendous impact of Government spending ... No account is taken anywhere in the report of the inflationary aspect of such expenditures, for the most part made without any direct increase in the production of goods and services.²⁴

Nearly 75 years later, the JEC has precisely the same concerns.

The *Employment Act of 1946* directed the Federal Government to prioritize the promotion of purchasing power, in addition to employment and production (see Chapter 3 and Chapter 4).²⁵ Yet in 2021, Congress, the Administration, and the Federal Reserve pursued policies that achieved the opposite, none of which is acknowledged in the *Report*.

First, expansionary fiscal and monetary policy overcorrected for the COVID-19 recession, boosting consumer demand beyond what suppliers could meet. Congress then pursued policies that directly reduced supply by disincentivizing work and threatening future tax increases. Coupled with supply chain challenges in the United States and around the world, these policy missteps stoked an average annual inflation rate of 4.7 percent in 2021 and 8.0 percent in Q1 2022, almost four times the 2000-2019 average inflation rate of 2.2 percent.²⁶

Chapter 2 of the *Response* documents these trends and quantifies the costs that inflation (since January 2021) has imposed on American families, estimated to be \$569 per household in April

2022 alone.²⁷ It goes on to identify the policy errors that worsened inflation in the United States relative to other countries, which include a fiscal and monetary overcorrection, regulations that reduced supply chain efficiency, and Congressional legislation that disincentivized work. The Chapter concludes with policy solutions that would restore Americans' purchasing power by lifting barriers to trade, employment, and production.

Inflation Trends

Inflation Hits its Highest Level in 40 Years

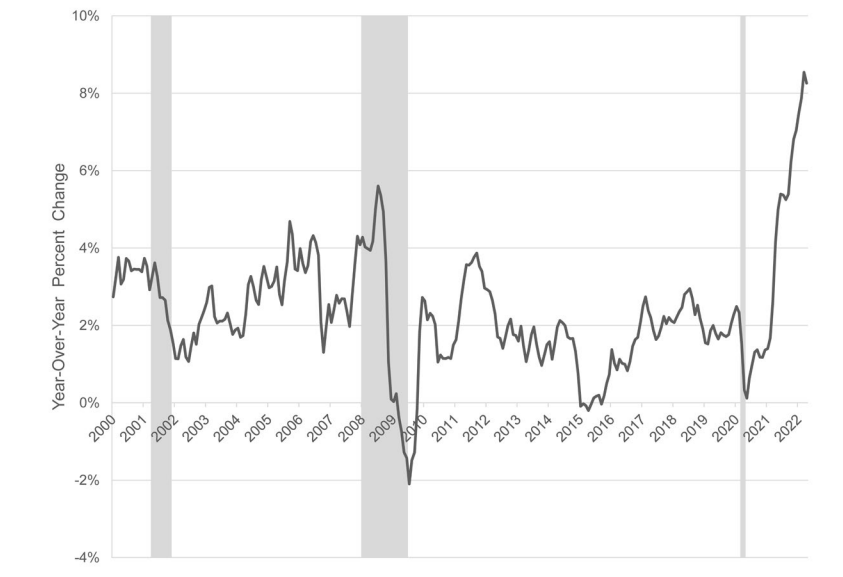
The rapid pace of inflation in 2021 and 2022 was atypical; Americans faced the highest—and fastest climbing—inflation rates in four decades. Inflation measured as the annual percent change in the Consumer Price Index (CPI) averaged 3.4 percent in the first half of 2021 and 6.0 percent in the second half.²⁸ By March 2022, the annual inflation rate would reach 8.5 percent, its highest level since December 1981 when the Federal Reserve was taking drastic economic measures to battle the Great Inflation. Inflation remained elevated in April 2022 at 8.3 percent, far above historical norms.

To visualize recent inflation trends, Figure 2-1 displays annual CPI growth rates for each month since the turn of the century. The pace of inflation in 2021 and 2022 had a much greater effect on Americans' purchasing power compared to other post-recession expansions. As of April 2022, Americans in the post-COVID expansion (May 2020-April 2022) faced an average annual inflation rate of 4.0 percent compared to 2.7 percent in the post-2001 expansion (December 2001-December 2007) and 1.7 percent in the post-2008/09 expansion (July 2009-February 2020).²⁹

The Federal Reserve's preferred inflation measure, the Personal Consumption Expenditures Price Index (PCEPI), was similarly

high. Compared to the 2000-2019 average of 1.7 percent, annual percent changes in the PCEPI averaged 2.8 percent in the first half of 2021, 4.9 percent in the second half, and was 6.3 percent by April 2022.³⁰ Even the CPI and PCEPI core measures, which exclude volatile items in the food and energy sectors, rose rapidly—increasing 6.2 percent and 4.9 percent annually in April 2022, respectively.³¹

Figure 2-1: Annual Percent Change in the Consumer Price Index, Monthly, January 2000-April 2022



Source: Bureau of Labor Statistics, retrieved from the Federal Reserve Bank of St. Louis

Notes: Annual growth rates in the Consumer Price Index for All Urban Consumers (CPI-U). Grey bars indicate recessions as defined by the National Bureau of Economic Research.

Markets Expect High Inflation to Persist

While the *Report* documents the high inflation Americans experienced in 2021, it argues that inflation will be temporary, presenting relatively anchored long-term market and expert

inflation expectations as of November and December 2021.³² Yet, after inflation continued to accelerate in 2022, forecasters revised up their expectations and market participants began pricing in expectations of sustained inflation.

Based on the same survey cited in the *Report*, professional forecasters' expectations of CPI inflation over the next five years increased from 2.7 percent in the Q1 2022 survey to 3.4 percent in Q2 2022.³³ Market indicators have similarly increased, including the Treasury Inflation-Protected Securities (TIPS) five-year spread shown in Figure 2-2.³⁴

The five-year TIPS spread is the difference between the yield on five-year Treasury securities and five-year TIPS. TIPS are considered to be very low-risk investments because the principal is adjusted to account for the cost of inflation; however, their low risk decreases their yields. As such, the difference between these bond yields is an indicator of what markets expect inflation to be on average over the next five years.

From 2010 to 2019, the market's five-year inflation expectations held relatively steady, averaging 1.7 percent. Then, after falling during the COVID-19 recession, inflation expectations began steadily rising. After recovering to 2.0 percent in January 2021, inflation expectations hovered around 2.5 percent during the second and third quarters of 2021 and exceeded 3.5 percent within the first quarter of 2022.³⁵

As of May 2022, investors' longer-term inflation expectations over the next ten years remain slightly elevated but still relatively anchored at 2.7 percent, suggesting that investors do not expect the current period of high and rapidly rising inflation to last for a decade.³⁶ Yet, as revealed in Figure 2-2, investors also do not believe the Federal Reserve will achieve its two percent inflation target within the next five years, indicating that the *Report*

misdiagnosed the threat of elevated inflation over the medium term.

Figure 2-2: Inflation Rate Expected Over the Next Five Years as Indicated by the TIPS Spread, Daily, January 2010-May 2022



Source: Federal Reserve Bank of St. Louis

Notes: The five-year TIPS spread reflects what market participants expect inflation to be in the next five years, on average. It is calculated by taking the difference between the 5-year market yield on U.S. Treasury securities at constant maturity and the 5-year market yield on inflation-indexed U.S. Treasury securities at constant maturity. Grey bars indicate recessions as defined by the National Bureau of Economic Research.

The Consequences of Inflation

High Inflation Imposes Significant Costs on American Families

The *Report* briefly describes the challenge of inflation. However, it makes no attempt to quantify the burdens inflation has imposed on American families, nor does it acknowledge that the United States is experiencing higher inflation rates than most other nations.

This year, the JEC launched a State Inflation Tracker to quantify the added costs American households faced each month due to the high inflationary environment that began in early 2021.³⁷ Monthly inflation costs are defined as the additional expenditures the average household must make in a given month to attain the same standard of living it did in January 2021, when CPI inflation was still within historical norms at a 1.4 percent annual rate.³⁸

The average American household faced a 10.5 percent price increase between January 2021 and April 2022. This implies that the average household would have had to spend an extra \$569 in April to afford the same goods and services it purchased in January 2021.³⁹

Americans Experience Inflation Differently Depending on Where They Live

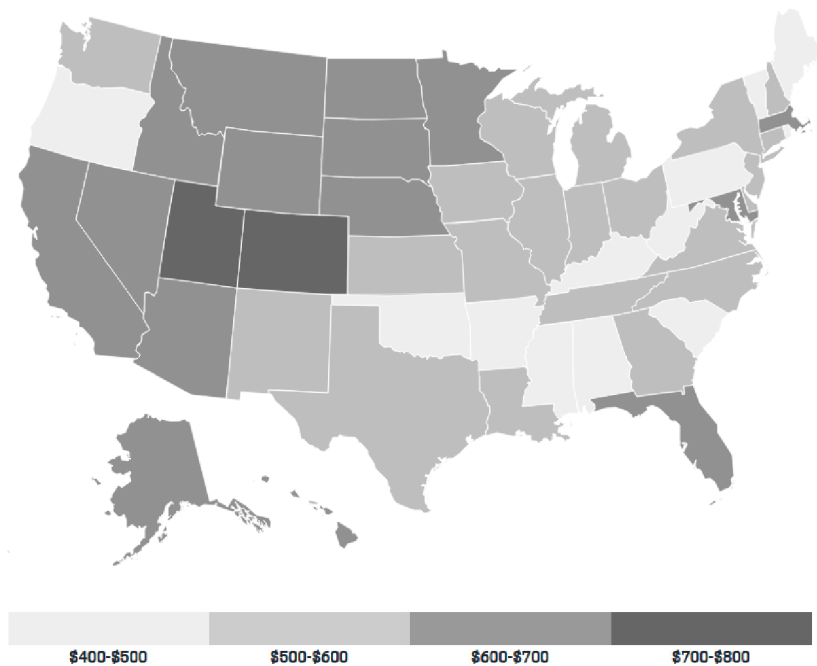
Although inflation was high everywhere in 2021 and 2022, inflation rates were not uniform across the country. Figure 2-3 shows this variation using a map of the United States in which States with higher inflation costs are shaded darker.

Families in the Mountain West (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming) faced the highest inflation rates, with prices in April 2022 12.7 percent higher than in January 2021.⁴⁰ What set apart inflation in the

Mountain West was rapidly rising home and rent prices as measured by the CPI for shelter, which increased 10.2 percent from January 2021 to April 2022.⁴¹

Inflation costs in April 2022 were especially high for families in Colorado (\$774), Utah (\$751), and Arizona (\$688).⁴² Families in Washington, DC, who have the highest average spending levels in the nation, experienced even greater inflation costs of \$806.⁴³

Figure 2-3: Average Inflation Costs per State, April 2022, Relative to January 2021 Price Levels



Source: JEC Calculations using: Bureau of Economic Analysis, Personal Consumption Expenditures; Bureau of Labor Statistics, Consumer Expenditure Survey; Census Bureau, American Community Survey.

Notes: Inflation costs reflect how much more the average U.S. household must pay in the current month for the same goods and services it purchased in January 2021. See methodology for a detailed explanation of these calculations; Jackie Benson, Kevin Corinth, and Kole Nichols, “State Inflation Tracker: Methodology,” U.S. Congress Joint Economic Committee Republicans, April 12, 2022.

Due to lower average household spending, families in West Virginia, Mississippi, and Arkansas faced the lowest inflation costs. However, these costs were still substantial. In April 2022, households in these States would have had to spend an additional \$442, \$446, and \$452, respectively, to afford the same goods and services they purchased in January 2021.⁴⁴

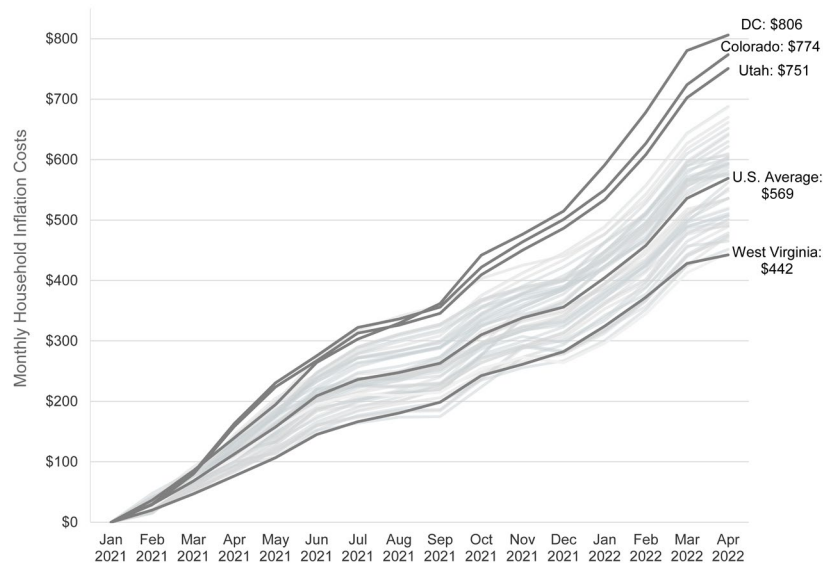
Inflation Costs Will Remain Even After Inflation Reverts to Normal Levels

As price levels rose throughout 2021 and the first four months of 2022, so did the monthly costs to American families. Figure 2-4 displays average monthly inflation costs over time for all fifty States and Washington, DC.

For the average U.S. household, inflation costs rose from \$0 in January 2021 (the base month) to \$356 in December 2021. In April 2022, inflation cost the average American household an extra \$569 to purchase the same goods and services it did in January 2021.⁴⁵

American families will face these costs in perpetuity even after inflation returns to normal levels, as the inflation that has already occurred represents a permanent increase in the price level. If prices were to completely stop increasing after April 2022, the price increases that already occurred would cost the average American household \$6,829 over the following 12 months.⁴⁶

Figure 2-4: Average Monthly Household Inflation Costs by State, Relative to January 2021 Price Levels, January 2021-April 2022



Source: JEC Calculations using: Bureau of Economic Analysis, Personal Consumption Expenditures; Bureau of Labor Statistics, Consumer Expenditure Survey; Census Bureau, American Community Survey.

Notes: Inflation costs reflect how much more the average U.S. household must pay for the same goods and services it purchased in January 2021. See methodology for a detailed explanation of these calculations; Jackie Benson, Kevin Corinth, and Kole Nichols, "State Inflation Tracker: Methodology," U.S. Congress Joint Economic Committee Republicans, April 12, 2022.

These inflation costs act as a regressive tax, disproportionately harming less affluent families. Lower-income households spend a larger portion of their budgets on food, energy, and shelter, which drove price increases in 2021.⁴⁷ Research also finds that inflation reduces poor individuals' lifetime consumption opportunities more than that of their wealthier counterparts,⁴⁸ and that rising gas prices specifically increase the cost of living for rural Americans significantly more than for wealthier Americans living in urban areas.⁴⁹

Drivers of Inflation

COVID-related challenges set the stage for high inflation in the United States and around the world. Consumers dramatically shifted their demand toward goods, increasing stress on production, transportation, and supply chains. At the same time, producers faced increased costs and shortages of intermediate inputs as global production was slow to recover from the COVID-19 shutdowns.

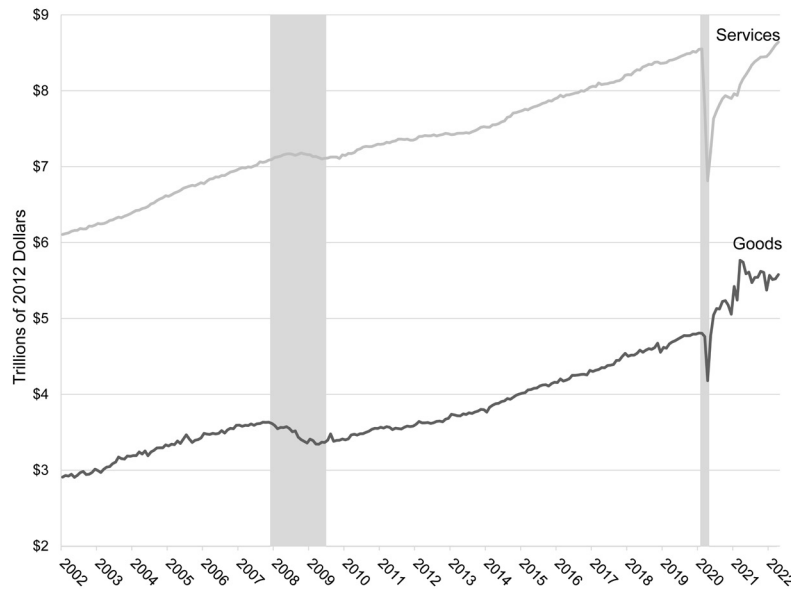
These demand and supply factors interacted with one another to fuel globally-elevated inflation. However, policies enacted by the Administration and other levels of Government created inflation challenges unique to the United States. U.S. policy decisions further boosted already-high demand for goods by incentivizing consumer spending, and further restricted the supply of goods by reducing the size of the workforce and increasing the cost of trade and production. Together, these policy choices worsened U.S. inflation compared to the rest of the world.

Shifting Consumer Preferences and Supply Chain Inefficiencies

Shifting consumer preferences presented a significant economic challenge during the COVID-19 recovery. Americans, hesitant to engage in in-person interactions, flocked to goods consumption throughout 2021. The result was a 20 percent increase in inflation-adjusted goods consumption by March 2021 relative to pre-COVID levels.⁵⁰ Goods consumption remained elevated throughout 2021 and 2022 even in the face of high inflation, with real spending on goods 16 percent higher in April 2022 than in February 2020.⁵¹

Figure 2-5 shows the stark contrast between goods consumption and services consumption following the COVID-19 recession, which contributed to high inflation for goods.

Figure 2-5: Real Annualized Personal Consumption Expenditures, Goods vs. Services, Monthly, January 2002-April 2022



Source: U.S. Bureau of Economic Analysis via Federal Reserve Bank of St. Louis.

Notes: Grey bars indicate recessions as defined by the National Bureau of Economic Research.

These post-COVID consumption trends were unique. Following the onset of the Great Recession, it took a full 50 months (over four years) for inflation-adjusted goods consumption to recover, compared to just four months after the COVID shock.⁵²

The sudden uptick in U.S. consumer demand for goods in early 2021, specifically imports, placed significant stress on supply chains. As the *Report* documents, U.S. imports rose faster than port capacity could process them, leading to unprecedented shipping backlogs.⁵³ Ports became so backlogged that container ships were forced to sit at anchor for days while they waited for unloading space, a highly unusual occurrence before the pandemic. By the end of the year, it was common for over 100

container ships to be waiting at anchor outside the ports of Los Angeles and Long Beach at once.⁵⁴ While the number of ships at anchor has fallen in 2022, reports suggest that container ship backlogs have continued.⁵⁵

Elevated consumer demand coupled with port congestion increased stress on truck and rail cargo shipping and put upward pressure on shipping prices.⁵⁶ One measure of shipping costs, the Cass Transportation Index's Inferred Freight Rates, increased 33 percent from December 2020 to December 2021, compared to a 2 percent increase from December 2018 to December 2019.⁵⁷

While ports were struggling to process large cargo volumes and shipping delays were growing, businesses also faced product shortages. The sudden shutdowns in 2020 caused many factories around the world to shut down, scale back production, or retool their production facilities to meet a different need, leading to global commodity shortages and rising prices for items like steel and lumber.⁵⁸ In some cases, these shortages are expected to last for years; producers who use foreign-made semiconductor chips in their manufacturing processes expect semiconductor shortages to last into late 2022 or 2023.⁵⁹

A lack of willing transportation workers also worsened supply chain challenges and increased inflationary pressure. Not only did weak labor supply reduce the number of available people working to get goods into consumers' hands,⁶⁰ it also put upward pressure on nominal wages for those workers,⁶¹ further increasing employer costs.

Government Policies Worsen Inflation

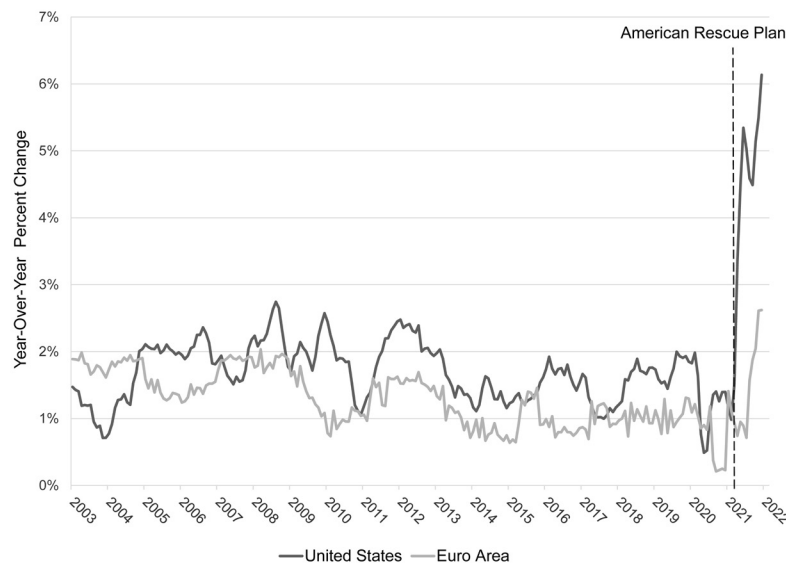
The *Report* asserts that inflation in the United States was strictly a global phenomenon caused by post-COVID reopening interacting with global supply chain challenges. It uses international

comparisons to make this point, suggesting that “the fact that inflation has accelerated in so many countries underscores its common drivers.”⁶²

The *Report* is partly correct in identifying the global factors that drove inflation in the United States and elsewhere, like shifting consumer preferences. However, global factors alone cannot fully explain the magnitude of U.S. inflation.

To demonstrate, Figure 2-6 compares core price increases in the United States and the Euro area. It reveals that inflation in the United States relative to Euro-using countries sharply increased in March 2021, after decades of largely comparable inflation trends.

Figure 2-6: Annual Percent Change in the Harmonized Index of Core Consumer Prices, Monthly, January 2003-March 2022



Source: U.S. data are retrieved from the Bureau of Labor Statistics via Haver Analytics; Euro Area data are retrieved from Eurostat via Federal Reserve Bank of St. Louis.
 Notes: Harmonized Index of Core Consumer Prices (HICP) for the United States excludes food and energy; HICP for the Euro Area excludes food, energy, alcohol, and tobacco.

The deviation in inflation trends was largely driven by four U.S. policy decisions: (1) an excessive fiscal response that over-fueled consumer demand, (2) an excessive monetary response that further boosted demand, (3) Government regulations that decreased supply chain efficiency, and (4) work disincentives that reduced the supply of willing workers.

FISCAL RESPONSE

The *Report* and the President's Budget propose new social spending goals without acknowledging the inflationary effect of prior Government spending. While one could justify the spending packages passed in early 2020 as hedging against the risk of a virus that was going to have unknown consequences on Americans' health and material wellbeing, the *American Rescue Plan Act* (ARP) was a \$2 trillion overcorrection made 11 months into the recovery.

In March 2021, Congress passed the ARP, fueling consumer demand far above what the market could supply and even further above its would-be natural level. The ARP's last major round of stimulus was delivered three months after consumer spending had fully returned to pre-COVID levels, and its size equaled almost 300 percent of the estimated output gap over the subsequent three years.⁶³ As shown in Figure 2-6, this policy choice coincided with a stark divergence in U.S. inflation compared to similar nations.

In total, U.S. COVID spending packages represented the largest fiscal response in the world as a share of Gross Domestic Product (GDP): more than double that of similarly developed countries like the U.K., Norway, and New Zealand, and 80 percent greater than Spain, Poland, and Belgium.⁶⁴

Congress and the Administration enacted policies that over-fueled demand in the face of supply chain challenges. The Advanced

Child Tax Credit (CTC), in effect through the end of 2021, provided parents with direct transfers of up to \$300 per child each month and simultaneously eliminated the related work incentives. Likewise, the Administration's decision to extend paused student loan payments, interest, and collections through at least August 2022 incentivized 70 percent of borrowers to move into forbearance as of December 2021, up from 8 percent in December 2019.⁶⁵ Disposable-income for these 27 million borrowers increased temporarily, further contributing to inflationary pressures.

These policy choices led to an accumulation of excess savings, detailed on page 58 of the *Report*, which inflated consumer spending. Aggregate personal saving spiked at three distinct times—in April 2020, January 2021, and March 2021—each corresponding to a different round of COVID spending bills and Economic Impact Payments made to households.⁶⁶ According to JEC estimates, American households accumulated \$2.5 trillion in excess savings by the end of 2021, consistent with other estimates⁶⁷ and roughly in line with the *Report's* estimate of \$2.7 trillion.⁶⁸

It was not until Q1 2022 that Americans started drawing down on these savings, spending \$43 billion more than they earned in the first three months of the year.⁶⁹ This level of dissaving, however, represents less than two percent of the total excess savings accumulated in 2021.⁷⁰ Assuming this level of dissaving holds constant, it would take 169 months—over 14 years—for Americans to spend the entirety of their excess savings, signifying 14 years of potential elevated consumer demand which could add to inflationary pressures.

Researchers have estimated the inflationary impact of the ARP, finding that the stimulus added 2.5 to 3.0 percentage points to U.S.

inflation in 2021.⁷¹ Researchers from the Federal Reserve Board and the Federal Reserve Bank of St. Louis further estimate that U.S.-driven inflation spilled over to other nations through international trade, increasing inflation in Q4 2021 by 1.5 percentage point in Canada and by 0.5 percentage point in the United Kingdom.⁷²

MONETARY RESPONSE

While Congress was pursuing an excessive COVID fiscal response, the Federal Reserve simultaneously enacted easy money policies to stimulate market demand. In March 2020, the Federal Reserve reduced the federal funds rate to zero percent, began a new round of quantitative easing, and flooded the economy with liquidity by enacting hundreds of billions of dollars of new lending programs.⁷³

Since then, the size of the Federal Reserve's balance sheet has more than doubled, with asset holdings increasing from \$4.2 trillion in March 2020 to \$8.9 trillion in May 2022.⁷⁴

Confronted with elevated inflation rates in mid-2021, the Federal Reserve Open Market Committee (FOMC) stayed committed to the view that inflation was transitory and kept on the path of accommodative monetary policy.⁷⁵ By December, annual growth in core PCEPI reached 5.8 percent⁷⁶ and the FOMC began scaling back its asset purchases.⁷⁷ Yet, the FOMC did not decide to raise the federal funds rate until March 2022, at which time core PCEPI inflation had reached 6.6 percent.⁷⁸

In March, the FOMC increased the target interest rate by 25 basis points, citing Russia's invasion of Ukraine and the threat to global oil prices.⁷⁹ The FOMC again raised the target rate in May, this time by 50 basis points,⁸⁰ and simultaneously announced that it would begin gradually reducing the size of its balance sheet.⁸¹

The slow pace of FOMC action to counter inflation may have made inflation worse. The federal funds rate was kept at zero throughout the entirety of 2021, incentivizing additional borrowing and spending while consumers were already accumulating \$2.5 trillion of excess saving from Congress's expansionary fiscal policy.⁸²

If the federal funds rate was responsive to market conditions instead of FOMC discretion, it would have increased at a much faster pace to stave off inflation. For example, the Taylor Rule—a formula that determines the optimal federal funds rate based on a desired rate of inflation and the gap between real GDP and potential GDP—suggests that the federal funds rate should have been close to six percent in the fourth quarter of 2021.⁸³

GOVERNMENT INTERVENTION IN SUPPLY CHAINS

The *Report* acknowledges the productivity enhancing benefits of international trade, recognizing that “modern supply chains have driven down consumer prices for many goods,” and that international trade “can lead to the development of highly specialized and innovative suppliers.”⁸⁴ Yet, it argues that supply chains failed in 2021, and makes the case that Government intervention is necessary to ensure supply chain resiliency.

The *Report* is correct in identifying the productivity-enhancing benefits of open markets. International trade reduces prices for producers and consumers, results in net job creation, productivity growth, and economic growth, and increases Americans' standard of living.⁸⁵ Unfortunately, the *Report* mistakenly blames supply chain challenges on U.S. dependence on imports, and makes no mention of the significant costs imposed by Government intervention in trade and production (detailed in Box 2-1 and Box 4-2).

At the same time, recent supply chain challenges have revealed inefficiencies in the U.S. trade and transportation sectors, largely driven by Government regulations that decrease the efficiency and functionality of U.S. supply chains. But the key to supply chain resiliency is not more Government intervention; it is less.

As detailed in the *Report*, the increase in consumer demand for imported goods in 2021 overwhelmed U.S. ports. There were simply not enough dock workers, unloading space, or warehousing space to process such a substantial increase in imports. More productive ports may have been better able to process higher volumes, but the United States ranks among the lowest in the world for port productivity.⁸⁶

Increased automation would likely help to improve port productivity; however, dockworkers unions supported by the Administration—like the International Longshore and Warehouse Union, which represents most workers on the West Coast—have largely resisted moves toward automation and increased efficiency.⁸⁷

As ports struggled to process large amounts of cargo, reforming Federal and local regulations would also have helped to ease bottlenecks. For example, dual-transaction rules made it harder for truck drivers to pick up cargo by mandating that trucks drop off and pick up containers within the same terminal, as did port rules restricting which types of chassis can be used at which terminals.⁸⁸ Similarly, local zoning regulations in Los Angeles worsened supply chain challenges by reducing container storage capacity and forcing ships to sit longer while they waited to drop off their cargo.⁸⁹

Box 2-1. Misguided Policies That Would Worsen Inflation

The *Report* argues that fragile supply chains were the leading cause of economic woes in 2021. While it does not recommend many concrete policy solutions beyond information sharing and increasing Government subsidies to manufacturers, it touts prior policies that restricted trade and raised domestic content requirements for Federally-purchased goods.⁹⁰

These proposed trade barriers would not increase supply chain resiliency. Instead, they would reduce U.S. productivity, increase the cost of domestic manufacturing, and further raise prices of consumer goods in an already-high inflationary environment.⁹¹

Additionally, the *Report* makes no mention of tariffs currently in place on nearly \$270 billion of imports from China which are actively increasing producer and consumer costs.⁹² While the President did not impose these tariffs, he chose to keep them in place, likely to protect domestic workers from foreign competition. However, tariffs make it costlier to manufacture in America by increasing the cost of inputs, as over 60 percent of imports are used by American manufacturers in domestic production.⁹³ Instead of protecting U.S. workers, tariffs harm more workers than they help.

Take, for instance, the national security tariffs on steel and aluminum imposed in 2018. By increasing the cost of foreign steel and aluminum relative to U.S.-made products, the national security tariffs were predicted to add roughly 26,000 jobs to the U.S. steel and aluminum manufacturing sectors. Yet by increasing the price of steel and aluminum, either because businesses were forced to pay the tariff or switch to higher-priced U.S.-made products, they were also predicted to eliminate nearly 500,000 jobs in the rest of the economy—harming U.S. manufacturers and

service providers, like construction companies, that utilize imported steel and aluminum in production.⁹⁴

Other studies have confirmed the harm that tariffs impose on domestic manufacturers, finding that the entire cost of U.S. tariffs on steel and aluminum were borne by U.S. importers.⁹⁵ When combined with retaliatory tariffs from other nations, these tariffs triggered net decreases in manufacturing employment in the United States.⁹⁶

Perhaps most relevant to current economic challenges, tariffs raise prices for American consumers and producers. Estimates suggest that removing recently imposed tariffs on imports from China, steel and aluminum imports, and Canadian lumber imports could deliver a one-time inflation reduction of 1.3 percentage point.⁹⁷

Congress has also enacted regulations through legislation that decreased the functionality of U.S. supply chains. The *Foreign Dredge Act of 1906* prevents foreign built, owned, or operated boats from dredging in the United States, i.e., the process by which ports are built and expanded. As a result, the United States has access to only 15 hopper dredges—the most efficient dredging vessels available—11 of which are more than 20 years old.⁹⁸ These laws discourage the expansion of ports by making dredging more costly, and the prohibitive cost of dredging is a key reason why the ports of Los Angeles and Long Beach are the only ports currently large enough to fit many of the vessels that transport goods to the United States.

Similar to the *Foreign Dredge Act*, the *Merchant Marine Act of 1920*, also known as the Jones Act, prevents any foreign built, owned, operated, or crewed vessel from sailing between U.S. ports. Not only does this legislation make sea-based shipping

unnecessarily expensive—daily operating costs for U.S. owned vessels are 2.7 times greater than for foreign-owned vessels⁹⁹—but it also reduces shipping options during supply chain crises, increasing stress on trucks and trains.

Finally, tariffs imposed on chassis (the metal support structures that trucks use to carry cargo) and semiconductor chips drove up prices and reduced the availability of goods that are essential to the trade and transportation industries. Industry reports suggest that tariffs imposed on chassis from China triggered shortages in the United States as U.S. chassis producers struggled to meet demand.¹⁰⁰ Likewise, tariffs on semiconductor parts likely contributed to U.S. auto shortages in 2021.¹⁰¹

WORK DISINCENTIVES

While Americans were facing rapidly rising prices and shortages, the Administration enacted policies that actively disincentivized work and worsened supply-side issues. In turn, U.S. production significantly lagged consumer demand.

As of Q1 2022, real U.S. industrial production was only 1.9 percent above its pre-pandemic level in Q4 2019, not nearly high enough to meet demand.¹⁰² Inflation-adjusted goods consumption jumped 15.6 percent during the same time frame.¹⁰³

Consumers bridged this gap by turning to imports.¹⁰⁴ However, lagging U.S. production was still problematic, driven in part by the lagging U.S. job recovery. As of May 2022, the U.S. labor force was missing 6.3 million workers measured against pre-pandemic trends.¹⁰⁵

Chief among the Administration's anti-work policies was the ARP's continuation of Federal Pandemic Unemployment Compensation (FPUC) through September 2021. FPUC disincentivized employment by paying many Americans more

money to stay unemployed than return to work.¹⁰⁶ In turn, removing these perverse incentives was found to reduce the number of Americans filing for unemployment insurance¹⁰⁷ and increase the number moving into employment.¹⁰⁸

The expanded CTC, another ARP policy, had similar effects. By increasing incomes and eliminating work requirements for recipients, the expanded CTC was predicted to reduce the size of the labor force by 1.5 million workers in the long run.¹⁰⁹

Looking forward, economic consensus suggests that the tax increases in the *Build Back Better Act*—the Administration’s principal policy aim—would likely depress investment and reduce hiring.¹¹⁰ Further reducing output and labor supply in this way would only add to inflationary pressures.

Chapter 3 of the *Response* provides more information about the Administration’s policies that reduced the size of the labor force in 2021.

Alternate Explanations Fail to Explain the Rise of Inflation

Aside from the macroeconomic demand shifts that spurred inflation following the COVID-19 shutdowns, and the Government policies that worsened it by boosting consumer demand and restricting the supply of goods, services, and labor, the President has offered alternative theories to explain the high inflationary environment in 2021 and 2022. For example, the President has attributed the rise in inflation to international conflicts, calling it “Putin’s price hike.” The President has also blamed oil and gas companies, suggesting high gas prices are the product of anti-competitive, greedy behavior.¹¹¹ However, these narratives cannot explain a substantial portion of the recent U.S. inflation experience.

First, while the President’s budget largely ignores high U.S. inflation, it attributes the “uncertainty” in its inflation assumptions to Russia’s invasion of Ukraine¹¹²—similar to the FOMC in their March 2022 meeting.¹¹³ Yet, inflation in the United States was climbing long before the Russia-Ukraine conflict began in March,¹¹⁴ and the pace of price increases would have only been modestly slower if Russia had never invaded Ukraine. Assuming that energy prices in March would have increased at the same rate they did in February (by 3.5 percent instead of 11.0 percent), overall prices measured using CPI still would have increased by 7.9 percent year-over-year, instead of their actual rate of 8.5 percent.¹¹⁵

The President also has argued that corporate greed and corporate concentration are driving the uptick in gas prices. In November 2021, the President asked the Federal Trade Commission to investigate oil and gas companies for anti-competitive behavior, evidenced by the divergence between gas prices and crude oil prices.¹¹⁶ Congress followed suit, and in May 2022 the House of Representatives passed legislation that would make it unlawful for wholesale or retail gas providers to sell consumer fuel at “unconscionably excessive” prices during an energy emergency.¹¹⁷ Aside from distracting from the root causes of inflation, price controls would cause substantial harm to consumers who would face shortages for goods they need.

In reality, the recent divergence in gas and oil price trends is a relatively common occurrence, known in the economics literature as “rockets and feathers,” in which prices fall slower than they rise in commodity markets. While there is no definite conclusion for why this phenomenon exists, it occurs across multiple markets—like oil, beef, and pork—and there is no evidence that it is explained by corporate greed.¹¹⁸ Rising gas prices are also unlikely to be the product of corporate concentration because the

United States has one of the least concentrated oil and gas sectors in the world.¹¹⁹

Policy Solutions to Restore Purchasing Power

Although Government-enacted policies worsened the inflation situation in 2021 and early 2022, the Government could pursue policy solutions to help alleviate inflation moving forward. First and foremost, the Administration and Congress should not pursue expansionary fiscal policy or additional stimulus while inflation challenges persist. Providing households with more subsidies and cash transfers would elevate consumer demand at a time when production cannot keep up due to weak labor supply and supply chain issues.

As such, the President's Build Back Better plan carries significant inflationary risks. The President's Budget proposes \$1.4 trillion in additional spending from 2022 to 2032 along with an estimated \$1.6 trillion of new spending to support the Build Back Better agenda.

Not accounting for indirect effects, new Government spending by definition increases GDP. However, economic research has identified a fiscal multiplier range of 0.6 to 1.0, with a multiplier less than one signifying that Government spending raises GDP but does not stimulate additional economic activity in the private sector.¹²⁰ Furthermore, the Congressional Budget Office (CBO) estimates that real GDP exceeded potential GDP as of Q3 2021, implying that any additional spending would be inflationary. Therefore, under the conservative assumption of a fiscal multiplier equal to 0.6, the increases in spending proposed in the President's policy agenda can be expected to increase annual inflation by 0.3 percentage point in 2022 and 0.3 percentage point in 2023.¹²¹

Second, the Federal Reserve's hesitancy to move away from its accommodative monetary stance while inflation was rising at its fastest pace in decades makes the case for a humbler, market-driven monetary authority. The FOMC could combine their dual mandate of price stability and maximum stable employment into a single mandate of Nominal GDP (NGDP) level targeting, which targets a stable growth rate of all spending in the economy.¹²²

By targeting the growth rate of NGDP, this approach is easily able to distinguish between demand shocks (in the negative case, where NGDP falls due to decreasing prices and quantities) and supply shocks (in the negative case, where NGDP is stable due to decreasing quantities and increasing prices), setting the appropriate path of monetary policy in each case. Perhaps most importantly, NGDP level targeting would provide markets with stable expectations, reducing the weight of FOMC discretion and lowering the chances of negative market reactions to monetary policy decisions. Indeed, research suggests that NGDP level targeting would have elicited a faster GDP recovery following the Great Recession, albeit with slightly higher short-term inflation levels.¹²³

Third, if the United States wants to prepare for potential future supply-driven crises—which may begin at home or abroad—it should seek to diversify its supply of essential goods. The Government should remove barriers to efficient supply chains, including regulations that needlessly drive up the cost of sea transportation and port expansions and hinder the United States' ability to effectively process imports. Similarly, recently imposed tariffs on chassis and semiconductors—inputs that are essential to the trade and transportation industries—should be removed, as they raise costs and worsen shortages.

Fourth, the Government should pursue policy reforms to increase the size and quality of the workforce. Valuable reforms may include: removing barriers to school choice programs, reforming Federal apprenticeship programs, removing regulations that discourage flexible work, and removing labor regulations, such as occupational licensing requirements, that keep would-be willing workers from participating in the labor force.

Fifth, policy reforms should encourage more domestic production. Removing tariffs on lumber from Canada and intermediate and capital goods imports from China may have the most immediate impact by reducing the cost of U.S. manufacturing. Regulatory reform, as detailed further in Chapter 4, would also accomplish this goal by reducing barriers to business creation, spurring investment, and stimulating economic growth. Similarly, removing regulatory barriers to U.S. oil and gas production would spur greater domestic energy supply and put downward pressure on energy prices.

Finally, to bring down the cost of housing, State and local Governments should pursue zoning reform to allow more housing construction and more multifamily housing units in areas of high demand. The Federal Government could also allow State and local Governments to repurpose Federal land in order to expand housing supply and increase affordability. While not comprehensive, enacting these reforms would be a meaningful step toward restoring Americans' purchasing power.

CHAPTER 3: EMPLOYMENT

The *Employment Act of 1946* charges the Federal Government with promoting “free and competitive enterprise and the general welfare, conditions under which there will be afforded useful employment for those able, willing, and seeking work, and to promote maximum employment,”¹²⁴ in addition to its other two goals of promoting production and purchasing power. During the Biden Administration, employment was poised for a full recovery from the pandemic-induced recession but fell short due to policies that held back labor supply.

The COVID-19 pandemic resulted in a historic shock to the labor market in the United States. Between February and April 2020, 22 million workers left the workforce.¹²⁵ Unfortunately, Government policies during the Biden Administration have kept the U.S. from returning to full employment. Policies have disincentivized work with the expansion of unemployment compensation and changes to the Child Tax Credit (CTC), threatened to prohibit work with vaccine mandates, made it more difficult to work due to school and childcare closures, and enabled non-work through cash transfers in the form of Economic Impact Payments and student loan forbearance.

Taken together, these policies played a major role in keeping employment 6.3 million workers short of the pre-pandemic trend as of May 2022. Because of misguided policy, the American economy is further away from the Employment Act’s goal of full employment.

This chapter documents the current state of the labor market in which weak labor supply is holding back employment. It then describes the role of policies in suppressing labor supply. Finally, it describes how future policies could strengthen labor supply and bring the American economy closer to full employment.

The State of the Labor Market

Prior to the COVID-19 pandemic, the U.S. labor market was especially strong, with increases in the labor force participation rate, employment to population ratio, real wages, and a reduction in poverty, particularly for historically disadvantaged groups. The pandemic disrupted these gains, but the country was in a position, at least early on, to quickly return to its pre-pandemic trend. Unfortunately, following what was initially a rapid jobs recovery through late 2020, the Administration-championed *American Rescue Plan Act* (ARP) became law in March 2021, adding \$1.9 trillion in new Federal spending.¹²⁶ The ARP extended earlier COVID policies and added new programs that together weakened labor supply, and as a result, stalled the labor market recovery. Consequently, the legislation suppressed labor market gains for American families and held back their economic well-being.

Employment Remains Below its Pre-Pandemic Trend

Prior to 2015, labor force participation had been declining for nearly two decades, particularly among prime age workers (ages 25 to 54). In October 2013 and again in September 2015, prime age labor force participation fell to 80.6 percent—its lowest rate in 30 years.¹²⁷ Labor force participation declines were seen across demographic and gender groups with prime age men in particular seeing significant declines.¹²⁸

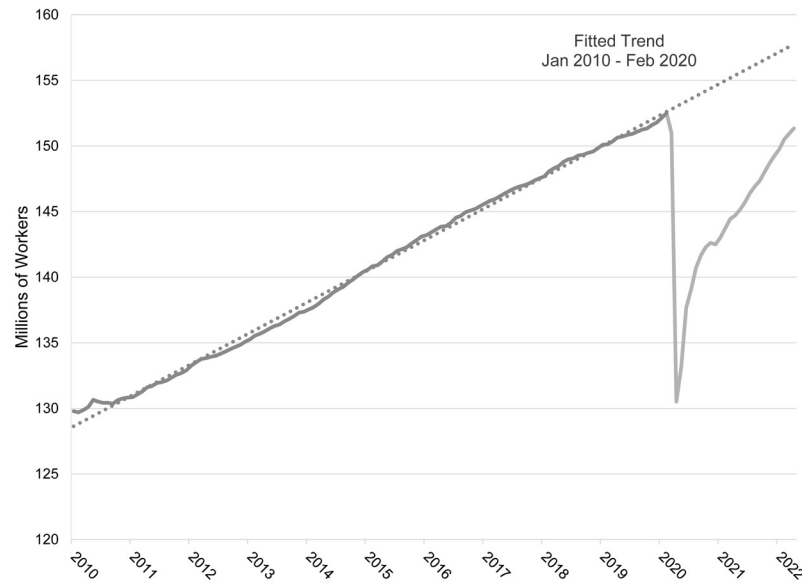
However, pro-growth policies beginning in 2017 and 2018—namely deregulation and lower taxes via the *Tax Cuts and Jobs Act*—strengthened the labor market. These policies helped sustain and further boost labor force participation, with the largest (pre-COVID) annual growth occurring from 2018 to 2019. In January 2020, prime age labor force participation reached 83.1 percent, a 12-year high. This growth was driven not only by new young workers and changes in population, but also by individuals who were previously disconnected from work entering the labor market. The total share of individuals who were working increased

across all major demographic groups. The employment to population ratio for Black Americans, for example, rose 8.4 percentage points from the lowest point after the Great Recession (July 2011) to February 2020.¹²⁹

Pro-growth policies also fueled wage increases by increasing productivity and demand for workers. Starting in Q4 2017, real wages rose every quarter until the start of the pandemic, with larger gains for historically disadvantaged populations and workers at the bottom of the wage distribution.¹³⁰

Unfortunately, the pandemic and subsequent policy response in 2020 and 2021 interrupted the labor market gains for many workers and stood in the way of a return to pre-pandemic trends. As of May 2022, 6.3 million workers remain out of the workforce measured against the pre-pandemic employment trend established in prior years (see Figure 3-1).

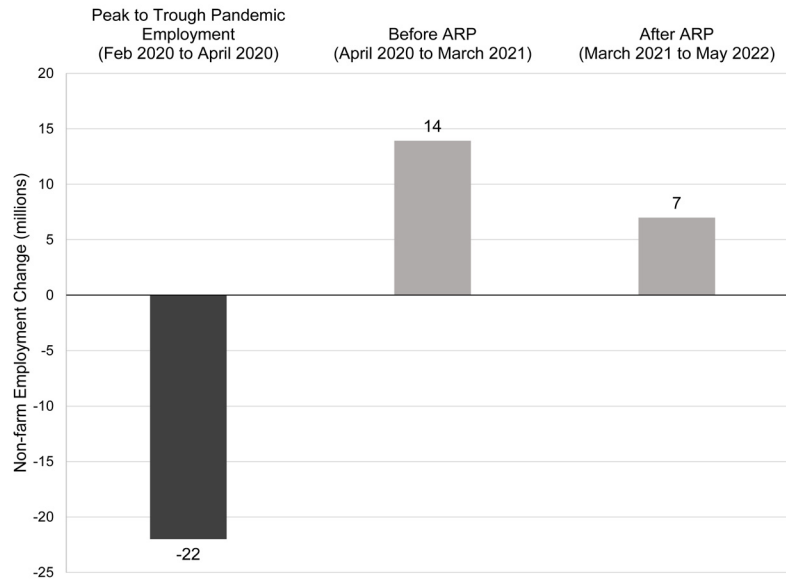
Figure 3-1: Number of Workers by Month, Including Pre-Pandemic Trend, Monthly, January 2010-May 2022



Source: JEC Calculations; Basic Monthly Current Population Survey data; Bureau of Labor Statistics, All Employees, Total Nonfarm.

The introduction and passage of the ARP likely slowed employment growth in 2021 by disincentivizing work. Figure 3-2 compares the employment recovery immediately following the initial pandemic shock with the recovery following the passage of the ARP. Following the initial employment decline of 22 million workers between February 2020 and April 2020, 14 million of those workers returned in the 11-month period through March 2021, the month ARP became law.¹³¹ Rather than allow emergency-era programs to expire, the ARP extended them, continuing the pandemic policies of subsidizing non-work. Only 7 million jobs were added during the 13-month period after the ARP was implemented, between April 2021 and May 2022.

Figure 3-2: Employment Loss and Recovery Pre and Post American Rescue Plan, February 2020-May 2022



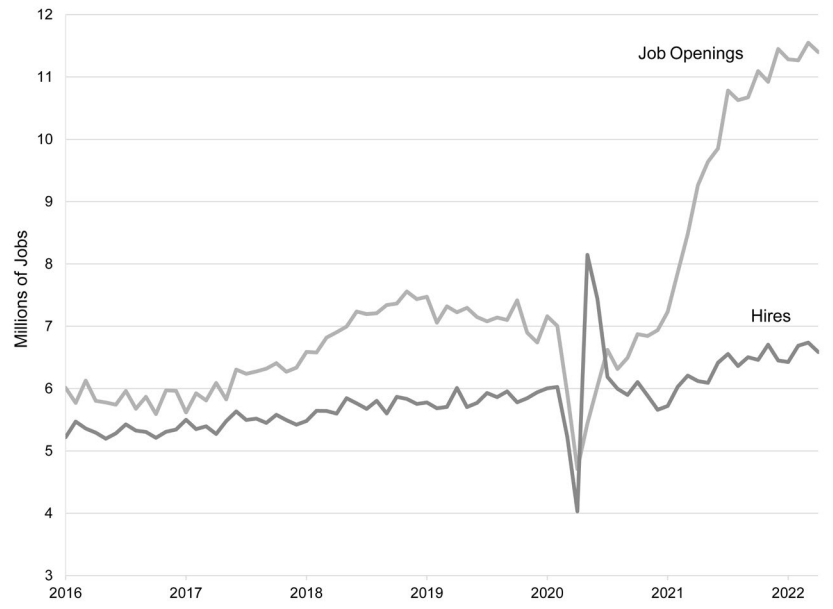
Source: Basic Monthly Current Population Survey data; Bureau of Labor Statistics, All Employees, Total Nonfarm.

Suppressed Employment is Due to Weak Labor Supply

The cause of suppressed employment levels is not weak labor demand. The workers who are available and looking for work are being hired. As of May 2022, the unemployment rate was 3.6 percent, just slightly higher than the pre-COVID level of 3.5 percent in February 2020.¹³² Rather, suppressed employment levels are due to weak labor supply.

Strong labor demand in conjunction with weak labor supply is evidenced by the growing gap between job openings and new hires by employers. By May 2022, there were 4.8 million more job openings than hires (Figure 3-3).

Figure 3-3: Job Openings and Hires, Monthly, January 2016-May 2022, Millions of Jobs



Source: U.S. Bureau of Labor Statistics, Job Openings: Total Nonfarm [JTSJOL], retrieved from FRED, Federal Reserve Bank of St. Louis; U.S. Bureau of Labor Statistics, Hires: Total Nonfarm [JTSHIL], retrieved from FRED, Federal Reserve Bank of St. Louis.

While new jobs are going unfilled at record rates, more workers are also voluntarily leaving their existing jobs, in what has become known as the “Great Resignation.”¹³³ While the *Report* notes that voluntary quits are generally viewed “as a sign of labor market confidence,” the record breaking number of quits in 2021 may be less a sign of labor market confidence than an indicator of the high excess savings attained over the pandemic (see more in Chapter 2). Not all of the individuals who left their jobs intend to return, which has held back labor supply.

Labor Market is Delivering Less to Families

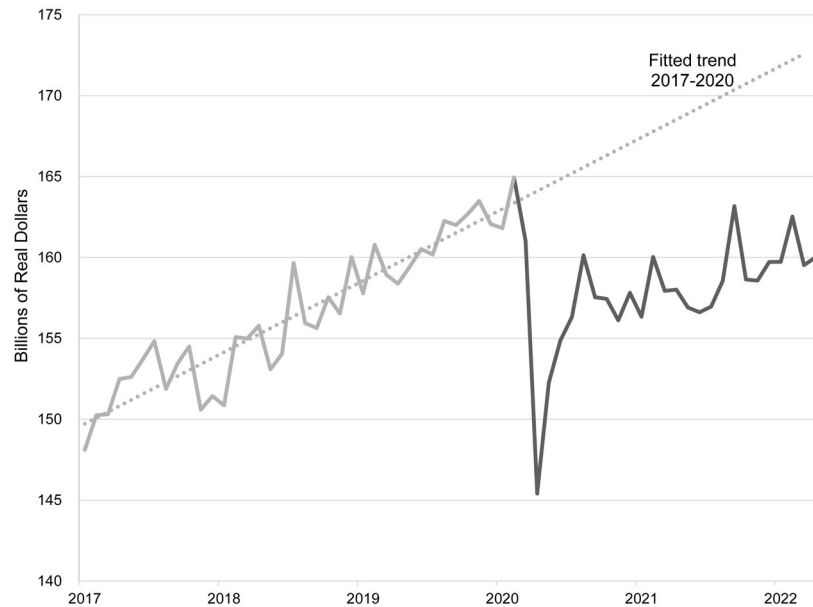
During the years immediately preceding the pandemic, real wages were rising, especially for low-wage workers. Rising wages fueled real median household income growth of a record 6.8 percent to

an all-time high of \$69,560 in 2019.¹³⁴ Income gains driven by employment and wage growth—particularly for women and minorities—caused poverty to fall to a record low for every racial and ethnic group in 2019.¹³⁵

The labor market has not delivered the same prosperity to families during the Biden Administration. After an initial spike in real median earnings when lower wage workers lost their jobs at the height of the pandemic, real median earnings fell consistently since Q3 2020. The initial decline was largely good news, signaling the return of lower-wage workers to the workforce. However, large real earnings decline since the second half of 2021 was primarily the product of inflation eroding all workers' wages. In real terms, the average weekly earnings of production and non-supervisory employees in April 2022 were 3.1 percent lower than they were a year prior.¹³⁶ When looking at all private industry employees, real average weekly earnings in April 2022 were nearly 3.4 percent lower than the year prior.¹³⁷

When factoring in lower overall employment levels relative to the pre-pandemic trend (the 6.3 million missing workers) and reduced real earnings of workers, the recovery of aggregate inflation-adjusted earnings received by all employed Americans fell even further below the pre-pandemic trend. Figure 3-4 shows real aggregated weekly earnings for all workers from January 2017 to April 2022. Compared to the pre-pandemic economy, aggregate real earnings in April 2022 were 7.5 percent below where they should be. Lower total earnings also persisted among most demographic groups, with women and Asian workers the furthest behind.¹³⁸ Since earnings make up the majority of market income for most households, below-trend real aggregate earnings suppressed market incomes for American families making them less well off than they should be.

Figure 3-4: Aggregate Real Weekly Earnings for All Workers, Billions of 2022 Dollars, Monthly, January 2017-April 2022



Source: JEC Calculations; Basic Monthly Current Population Survey data; Bureau of Labor Statistics.

Notes: JEC calculations with linear trendline fitted based on data from January 2017 through February 2020. Earnings adjusted to 2022 dollars using the Consumer Price Index–Urban Series.

Policies That Have Contributed to Weak Labor Supply

The 6.3 million worker shortfall as of May 2022 is largely a result of policy choices during the Biden Administration that unnecessarily weakened labor supply. These policies disincentivized work, enabled non-work, made it more difficult to work, and in some cases prohibited work altogether. While some of the policies have expired, their effects continue to shape a labor market that remains far removed from the trends established before the pandemic.

Disincentives to Work

Work disincentives make work less rewarding by shrinking the difference between an individual's income when working and when not working. The ARP weakened work incentives through enhanced unemployment compensation and changes to the CTC.

ENHANCED UNEMPLOYMENT COMPENSATION

In 2021, pandemic unemployment programs were extended by the ARP well beyond their early, emergency justification.

Federal Pandemic Unemployment Compensation (FPUC) is the COVID-era program that likely provided the largest work disincentive. In its original form as part of the *Coronavirus Aid, Relief, and Economic Security* (CARES) Act, FPUC provided unemployment claimants with an additional \$600 per week on top of regular State unemployment benefits. This created a significant anti-work incentive by paying many people more to remain unemployed than to return to work. Peter Ganong, Pascal Noel, and Joseph S. Vavra from the University of Chicago estimate that unemployment benefits exceeded potential wages for nearly 70 percent of eligible unemployment claimants.¹³⁹

By 2021, the FPUC was paying out \$300 per week in additional unemployment compensation on top of regular State benefits. Rather than allow the program to expire in order to facilitate the economic recovery, the ARP extended the FPUC and eligibility to workers who would otherwise not be covered. American Action Forum research found that with \$300 in additional weekly benefits, 37 percent of the entire U.S. workforce would receive more from unemployment benefits than from working.¹⁴⁰

The FPUC expired in September 2021. Some States, however, chose to end the FPUC benefit prior to the Federal deadline. The 24 States that eliminated the \$300 FPUC early experienced on average a 14 percent reduction in initial unemployment claims and

a 5 percent reduction in continuing claims.¹⁴¹ Research from Harry Holzer, Glenn Hubbard, and Michael Strain found that unemployed workers who lost access to supplemental unemployment assistance were more likely to move into employment when benefits were ended.¹⁴² These findings provide additional evidence that enhanced unemployment programs kept individuals out of the workforce in 2021.

EXPANDED CTC

The ARP made significant changes to the CTC by removing the earnings requirement, making 17-year-old dependents eligible, and increasing the maximum amount of the credit from \$2,000 per child to up to \$3,600 per child. The prior version of the CTC encouraged parents to participate in the workforce because earnings or taxable income were required to receive it. The prior version of the CTC also encouraged additional hours of work for some parents because of the phase-in design. However, the expanded CTC made all parents eligible for the full CTC amount regardless of work. This incentivized some parents to stay out of the workforce entirely and incentivized other working parents to work fewer hours than they otherwise would.¹⁴³

Kevin Corinth, Bruce D. Meyer, Matthew Stadnicki, and Derek Wu from the University of Chicago estimate that a permanent CTC without an earnings or taxable income requirement would lead 1.5 million workers (or 2.6 percent of all working parents) to leave the workforce.¹⁴⁴ As a result of workforce exits, child poverty would fall by less than advertised and deep child poverty would not fall under the expanded CTC.¹⁴⁵

Enabling Non-Work

The fiscal response to COVID–19 enabled the subsidization of non-work through excess savings. Expanded unemployment, as mentioned above, played a significant role in keeping individuals from returning to or looking for work, while policies like

Economic Impact Payments and student loan forbearance further increased savings likely prolonging workforce detachment.

During the COVID-19 pandemic the Government issued three Economic Impact Payments: \$1,200 (+\$500 per eligible child) in April 2020 under the CARES Act, \$600 (+\$600 per eligible child) in December 2020 as part of the *Tax Relief Act*, and \$1,400 (+\$1,400 for each qualifying dependent) in March 2021 under the ARP. Typically, single individuals with Adjusted Gross Income below \$75,000 and married couples with Adjusted Gross Income below \$150,000 were entitled to the full payment amounts.¹⁴⁶

Across all three rounds of Economic Impact Payments, a single adult with one child could receive up to \$5,700, and a married couple with two children could receive up to \$11,400, regardless of employment status or need. These direct cash transfers decreased the need to return to work if the individual was not employed or to pursue additional work hours if employed.

Student loan forbearance contributed to the excess savings of Americans as well. Research done by Tom Lee at the American Action Forum explored the effect that student loan forbearance had on borrowers' choice to continue making regular payments. Prior to the pandemic in Q1 2020, nearly 50 percent of borrowers were making regular payments. Following the passage of the CARES Act, which contained the original loan forbearance provision, the percent of borrowers making regular payments dropped sharply. Since Q3 2020, the percent of borrowers making regular payments has remained relatively stable at 1.1 percent.¹⁴⁷ By continuing to extend loan forbearance, individuals retained as savings what they would have been spending on their regular payments. Pre-pandemic data show that the average required monthly payment was between \$200 and \$300 per month. For the average individual who stopped making regular payments on their student loans starting in April 2020, following the passage of the CARES Act, by the end of May 2022 they would have

accumulated \$5,200 to \$7,800 in excess funds that they otherwise would have put toward loan repayment.

Making it More Difficult to Work

Child care closures and the switch from in-person to virtual schooling made work more difficult for parents. Parents who typically worked outside the home had to make the choice to leave their children by themselves or not work.

Child care costs rose significantly during the COVID pandemic and access to child care options became even more challenging due to the high number of center closures that occurred following the steep drop in demand in the early days of the pandemic. According to the National Association for the Education of Young Children and the Early Care and Education Consortium, daily child care attendance initially dropped by more than 70 percent leading over 35 percent of providers to remain closed as of April 2021.¹⁴⁸

Compounding the problem of child care closures, schools turned to virtual schooling. The Centers for Disease Control (CDC) did not declare it safe to open schools until February 2021. Even then, CDC guidance recommended masking indoors, maintaining distance, and limiting supplementary activities like fully reopening cafeterias or extra-curriculars. Despite reduced severity of infection among children, some States and localities decided to extend or implement regulations on schools and child care centers even after the CDC recommendation for reopening. Washington DC, for example, limited class size in schools until March 2021, and restrictions on the number of children in child care centers were still in place in May 2021.¹⁴⁹

Prohibitions on Work

Beginning in 2021, the Federal Government attempted to impose sweeping vaccine mandates on workers. Universal vaccine

mandates would have effectively prohibited the 45 million Americans (or 30 percent of the civilian labor force) who remained unvaccinated as of December 2021 from working.¹⁵⁰ The JEC estimates that at the time, between 2.1 and 6.8 million workers would have been at risk of leaving their jobs under a Federal vaccine mandate.¹⁵¹

While the mandate imposed by the Biden Administration was struck down in court, around 40 percent of employers (as of March 2022) chose to require vaccination or regular testing, in some cases in anticipation of being subject to the Biden Administration's Federal mandate.¹⁵² These private mandates, along with the Federal vaccine mandate on hospital workers and Federal workers, forced some people who did not get the vaccine to leave their jobs.¹⁵³

Policies to Promote Full Employment

The *Report* fails to recognize that suppressed labor supply is holding back the labor market, due in large part to the Biden Administration's policies. Future policies intended to promote full employment must focus on increasing labor supply.

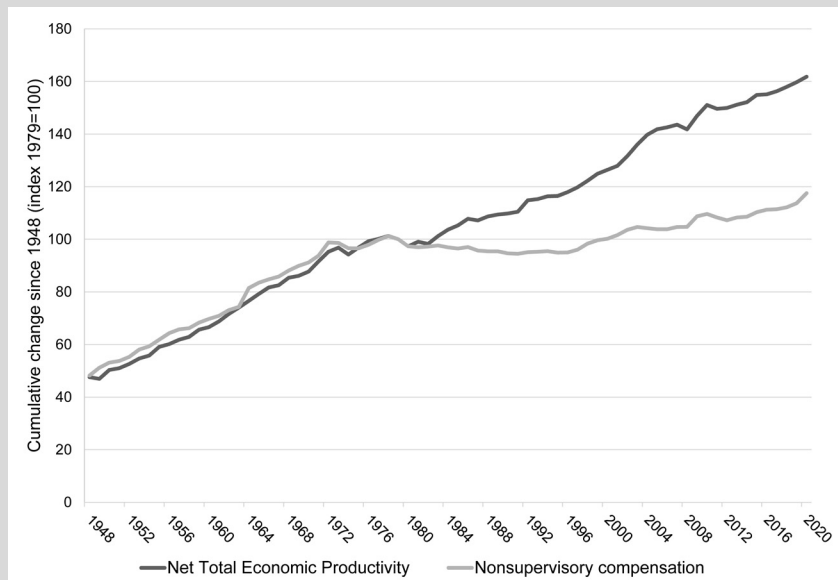
First and foremost, future policies should not add or expand disincentives to work. Cancelling any portion of student loans, and pushing through provisions of the proposed *Build Back Better Act* including the expanded CTC, national paid leave, and vague promises to address climate change by requiring union labor would ultimately do more harm to the already distorted labor market. Such policies would further weaken labor supply and should be avoided.

In addition to avoiding further harm, policymakers can also take proactive steps to boost labor supply.

Box 3-1. The Productivity-Pay Gap Myth

In an attempt to highlight inequities in the U.S. economy, the *Report* points to the oft-cited “productivity-pay gap,” shown below in Figure 3-5.¹⁵⁴

Figure 3-5: Productivity Pay Gap Myth



Source: *Report* 159.

The premise of this argument is that over time the value that workers provide to the economy (productivity) disassociates with what workers receive from the economy in wages. This seemingly troubling phenomenon, according to the *Report*, lends itself to interventionist solutions including increasing the Federal minimum wage and pushing more workers (regardless of their preferences) into unions.

The purported productivity-pay gap has faced significant and compelling criticism.¹⁵⁵ The methodology underlying Figure 3-5 has been discredited and research indicates the opposite is true. Productivity growth remains closely related to wage growth.

Economist James Sherk finds that key methodological differences between the productivity and compensation series in Figure 3-5 account for nearly 80 percent of the alleged gap.¹⁵⁶ Chief among these differences being that the productivity and compensation series use different inflation adjustments.¹⁵⁷ The Implicit Price Deflator (IPD) is used for productivity series and the Consumer Price Index (CPI) is used for the compensation series. Comparing wages and productivity measures when each is adjusted using different deflators will not lead to accurate conclusions.

In fact, rigorous research identifies a strong relationship between increased productivity and higher wages. Productivity growth is correlated with wage gains for workers in both high and low skill industries. Edward Lazear found that between 1989 and 2017, industries with significant concentrations of high skilled workers saw productivity rise 40 percent and wages rise 29 percent. Over the same time period, lower skilled industries saw a 22 percent increase in productivity and a 27 percent increase in wages.¹⁵⁸ Not only do these and other studies show that productivity and wages are still connected, but they show that differences in wage growth are likely the result of different levels of productivity. Wage inequality is not mainly a result of direct discrimination as the *Report* claims.

Federal policymakers could consider fixing the myriad of disincentives to work that exist across the large and complex means-tested welfare system. Many welfare programs undermine work by providing assistance without requiring employment or work preparation for those who are working age and non-disabled. These programs make non-work a viable alternative to work for some Americans. Congress could pursue reforms to Temporary Assistance for Needy Families, the Supplemental Nutrition Assistance Program, Medicaid, rental housing assistance programs, Social Security Disability Insurance, Supplemental Security Income, and a number of other social safety net programs to more effectively promote work.¹⁵⁹

State and local occupational licensing reforms would also enable individuals to more easily enter new professions or industries and pivot within the labor market, a point the *Report* similarly highlights.¹⁶⁰ Currently, occupational licensing regulations require workers to receive permission from State and local Governments to legally receive pay for their services. These requirements force animal breeders, auctioneers, dance instructors, hair braiders, bartenders, florists, contractors, cosmetologists, landscapers, and even fortune tellers to pay fees (which can be several thousands of dollars) to do a requisite amount of training (which can take anywhere between a few hours to over a year) before being able to legally work.¹⁶¹

The frequently voiced justification behind occupational licensing is that it protects consumers. Much like a doctor requires a degree before he or she can practice medicine, many licensing requirements are purportedly put in place to ensure that safety standards are upheld. The reality, however, is that many of these licensing processes have no obvious safety-related need and instead act solely as barriers to entry that discourage labor mobility. The Federal Reserve Bank of Minneapolis finds interstate migration rates for workers in jobs requiring an occupational license are 36 percent lower than for workers with unlicensed jobs.¹⁶² The evidence shows that licensing requirements likely play a role in restricting individuals' interstate movement and consequently keep them from new opportunities.

The heavy regulatory burdens of occupational licensing tend to fall hardest on military spouses, who typically live in several States throughout their working lives, and the formerly incarcerated, who are typically ineligible to receive occupational licenses to work.

Making it easier for Americans to access work without jumping through unnecessary hoops would make the goal of full employment more attainable. While reform is challenging given

that each State has its own regulations for different jobs and industries, the potential gains for workers make occupational licensing reform a worthwhile pursuit.

Conclusion

In the pre-pandemic economy, both employment and labor force participation were on the rise. Americans came off the sidelines to join the workforce, wages rose, and unemployment fell. Workers with low wages and those from historically disadvantaged groups experienced some of the largest gains, enjoying record high incomes and record low poverty rates.

Following the initial pandemic shock in early 2020, employment started to recover rapidly, but then began to slow as a result of work disincentives like enhanced unemployment compensation, an expanded CTC, cash transfers, and vaccine mandates. The ARP continued or increased many of the policies that held back labor supply. The policy-induced suppression of the labor supply contributed to a 6.3 million worker shortfall relative to the pre-pandemic trend. While nominal wages rose in some industries, high inflation reversed those gains.

The strong pre-pandemic economy demonstrated what works for improving the labor market outcomes for American families, especially those with low wages and from historically disadvantaged groups—a labor market where workers and employers alike are free from burdensome regulation and work is rewarded more than non-work.

To achieve full employment, the root causes of the slow labor market recovery must be addressed. Increasing labor supply by refraining from additional Federal spending and by proactively engaging in occupational licensing reform is the first step to increasing productivity, raising wages, and boosting the living standards of American families.

CHAPTER 4: PRODUCTION

The Employment Act identifies the promotion of maximum production as one of three key goals of economic policymaking, along with stable prices and maximum employment.¹⁶³ Economic growth, driven by American enterprise and ingenuity, has served as a powerful force for improving living standards throughout our nation's history.

While the concept of economic growth and increased production can seem abstract and removed from the daily lives of Americans, the benefits of economic growth show up across various dimensions of well-being. Americans at all income levels have access to a greater quality and quantity of food than ever before, have more leisure time, and work fewer hours for higher incomes than at any other point in history.¹⁶⁴ They live in higher quality homes with modern appliances and less overcrowding. Advances in medical technology have helped increase the average life expectancy from 47 years in 1900 to 79 years today.¹⁶⁵

These gains in well-being are why the trend of slowing growth rates highlighted in the *Report* presents a pressing policy concern. The *Report* argues that economic growth has slowed in recent decades as a result of the Government retreating from its core responsibility of intervening in markets to keep them from failing. However, there is very little evidence that Government has withdrawn or that market failures are the cause of slowing economic growth.

This chapter will document the opposite—how the growth of Government and the regulatory state is an important cause of lower growth rates over the last half-century, and why pro-growth policies that rely on the private sector remain the best way to maximize long-run economic production and economic well-being for all Americans.

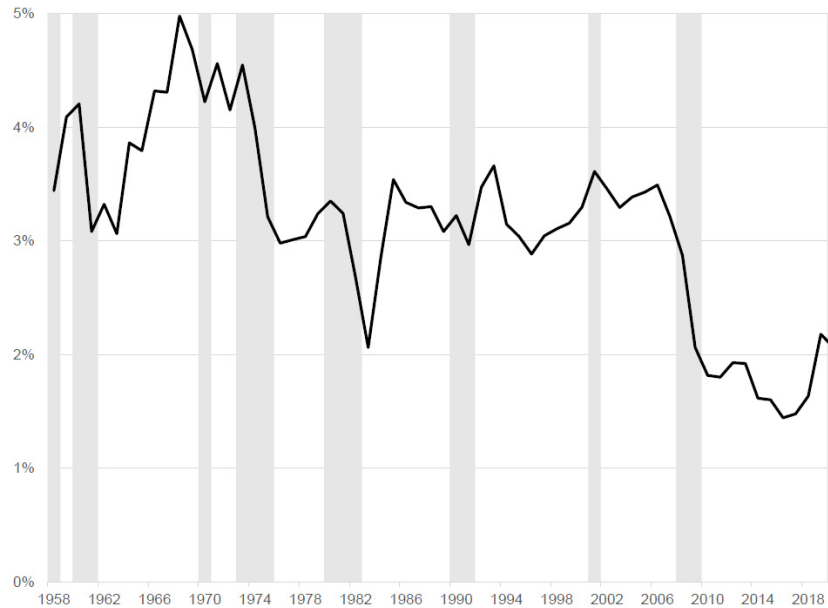
Is Economic Growth Slowing?

Economic growth has historically served as a powerful force for improving the material well-being and living standards of Americans. Yet, rates of economic growth in the United States and other developed countries have slowed somewhat in recent decades. Following the goals set out in the Employment Act, the *Report* rightly focuses on the importance of maximizing economic growth for improving the well-being of all Americans, and it accurately notes that gross domestic product (GDP) growth rates have slowed somewhat since the 1970s. However, the *Report* ignores cause for future optimism.

The average annual real GDP growth rate between 1948 and 1978 in the United States was 3.8 percent. In the years following 1978 the average GDP growth rate slowed by 1.1 percentage points to 2.7 percent.

To more clearly show this trend, Figure 4-1 presents a 10-year rolling average of annual growth rates. The figure shows three distinct periods. Growth rates were initially high, averaging 3.9 percent up to 1975, fell to an average of 3.3 percent between 1975 and 2000, and fell again to 2.0 percent over the past two decades (2000-2021). Some of this decline is due to slower population growth and other demographic factors, but growth in GDP per capita has similarly fallen from an average annual growth rate of 2.4 percent between 1948-1975, to an average annual growth rate of 1.7 percent from 1975-2021.

Figure 4-1: Real Gross Domestic Product, Rolling 10 Year Average Annual Growth Rate, 1958-2021



Source: JEC Calculations; U.S. Bureau of Economic Analysis, National Bureau of Economic Research.

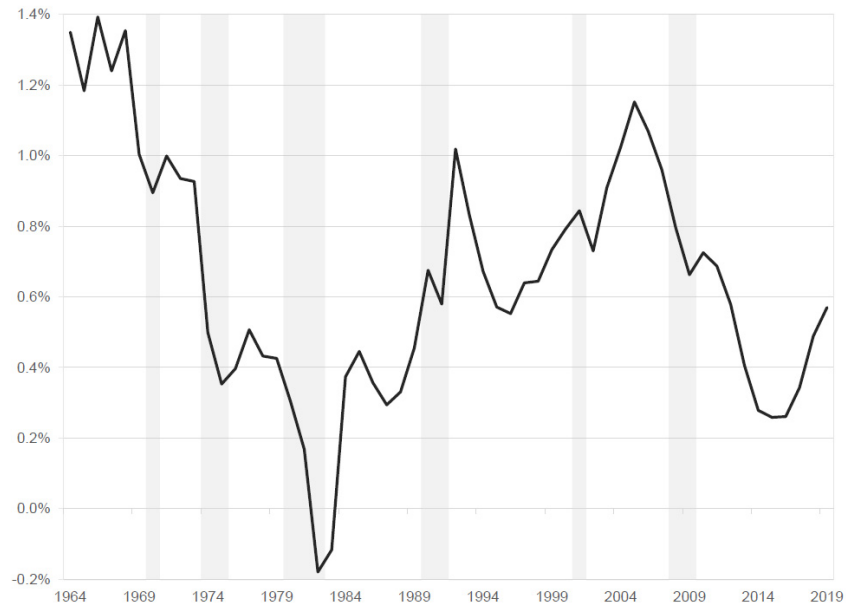
Notes: Grey bars indicate recessions as defined by the National Bureau of Economic Research.

Small changes in growth rates can have a large impact on the future size of the economy and relatedly, the well-being of Americans. If the United States had maintained its pre-1970s average growth rate, the economy would have been more than twice as large in real terms at the end of 2021. Ensuring strong growth in economic output over the long-run is the most powerful tool we have to ensure future generations will continue to be better off than their parents.

A related measure of economic progress, productivity growth, tells a more complicated story. Figure 4-2 presents a measure of total factor productivity (TFP), which represents how efficiently an economy uses its inputs.¹⁶⁶ Economic growth depends on inputs

of labor, capital, and the effectiveness with which these inputs are combined and utilized. The economy can grow by expanding the number of workers, hours worked, new investments in tools and infrastructure, or increasing TFP. Figure 4-2 displays 10-year average productivity growth rates. The trend shows that TFP was growing at historically low rates through the 1970s and early-1980s, falling from a ten-year average annual growth rate of 1.3 percent in 1964 to -0.2 percent in 1982. TFP growth rates then picked up following the information technology booms of the late 1980s and early-1990s, grew again with the advent of smartphones in the early-2000s, and declined following the 2008-09 Great Recession. Productivity growth has since slowly recovered and the ten-year average was roughly at its historical average in 2019.¹⁶⁷

Figure 4-2: Total Factor Productivity, Rolling 10 Year Average Annual Growth Rate, 1964-2019



Source: JEC Calculations; Bureau of Labor Statistics.

Notes: Grey bars indicate recessions as defined by the National Bureau of Economic Research.

Although productivity is only one factor that influences future growth, there is some cause for optimism if recent trends continue. Major breakthroughs in medical technology, artificial intelligence, and building materials, to name a few examples, have the potential to support stronger future productivity growth.¹⁶⁸ New technologies can take years to penetrate industries, but they frequently lead to rapid acceleration in productivity growth following widespread adoption. The *Report's* presentation of these economic trends and subsequent proposals of Government intervention as a necessary remedy are too pessimistic and likely counterproductive. Pre-pandemic trends in productivity could mark a departure from the slower economic growth of previous decades, especially if productivity growth is accompanied by growth in the labor force and capital stock.¹⁶⁹

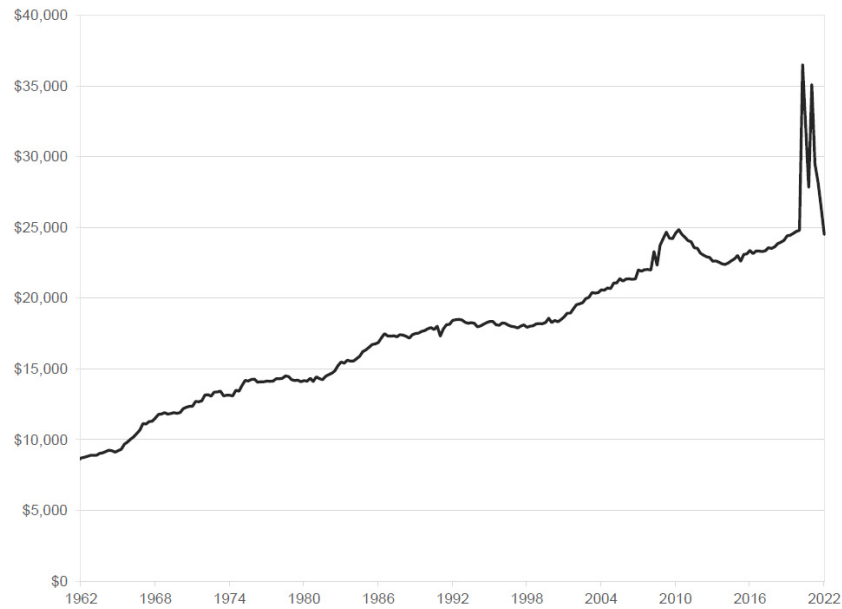
The *Report* blames slow economic growth on a “retreat of the U.S. public sector” beginning in the 1970s. The next section will show that instead of retreating, Government has steadily grown over time.

Growth of the Public Sector

The *Report* misdiagnoses the primary cause of slower economic growth, attributing it to a “depleted public sector” that has retreated from its core responsibility of “partnering” with the market. To the contrary, this section of the *Response* documents how the size and scope of Government has grown steadily since the 1930s, with no discernable retreat or shrinkage following the 1970s.

Figure 4-3 shows the steady increase in total Government spending (Federal, State, and local) over the past four decades. Adjusted for inflation, annual Government spending per person amounted to \$24,508 in January 2022, up from \$11,928 in January 1970, a 105 percent real increase. Government spending as a share of GDP has also increased, rising steadily through the 1970s and 1980s, before leveling off.

Figure 4-3: Annualized Government Spending Per Person, 2022 Dollars, Monthly, 1962-2022

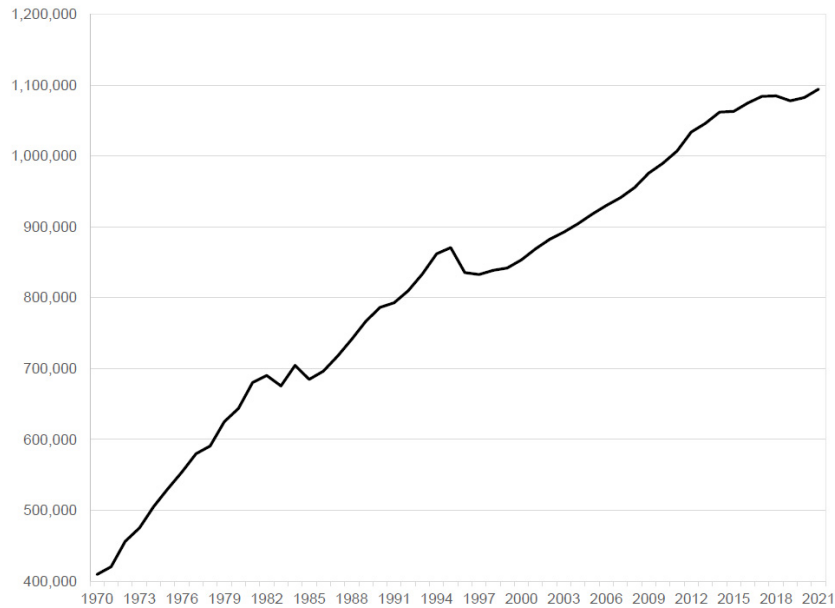


Source: Bureau of Economic Analysis.

Note: Series includes total dollars of Federal, State, and local Government spending. Monthly values shown are annualized and seasonally adjusted.

In addition to spending, Government intervention in the private sector via regulatory activity has grown dramatically since the 1970s. The number of restrictions—defined here as words or phrases in the Code of Federal Regulations that indicate an obligation to comply, such as “must” or “shall,”—has nearly tripled in the last 50 years. Figure 4-4 shows that regulatory restrictions increased from just over 400,000 in 1970 to 1.1 million in 2021.¹⁷⁰ Between 1970 and 1980 the number of restrictions increased by 57 percent, growing faster than in any other decade.

Figure 4-4: Code of Federal Regulations, Restriction Count, 1970-2021



Source: QuantGov.

Note: A restriction is defined as words or phrases in the Code of Federal Regulations that indicate an obligation to comply.

Rather than representing a period of deregulation, the 1970s represented an era of dramatic growth in the regulatory burden imposed by the public sector. This period of expanding public sector involvement in economic activity is reflected in books such as *The Population Bomb* (1968) and *Silent Spring* (1962) that sought to limit economic growth and impose population controls as a means to protect the environment. Laws such as the National Environmental Policy Act (NEPA) and the National Historic Preservation Act (NHPA) made it harder to build new public or private infrastructure. These laws, NEPA in particular, set up a process that is intended to protect the natural and built environment, but instead creates a system ripe for abuse by special interest groups who use the process to block new infrastructure,

electricity generation, redevelopment projects, and other economically significant investments.¹⁷¹ Similarly, a series of court cases, including *Citizens to Protect Overton Park v. Volpe*, further built the legal framework by which special interests can engage in litigation to block new development.¹⁷² With expanding control over economic activity, State and Federal regulatory agencies can stand in the way of economic progress by simply moving too slowly or not approving private sector proposals.

Even as overall regulation grew, some industries benefited from modest deregulation in the 1970s. Deregulation of airlines, trucking, and railroads allowed the industries to increase capacity and reduce fares. As a result, airfare, trucking, and railroad transportation costs fell by between 33 percent and 75 percent and have remained lower in the following decades. Lower costs in these three industries represent annual savings to consumers of \$67 billion annually in 2022 dollars.¹⁷³ Likewise, while reforms in the 1980s implemented cost benefit analyses in agency rulemaking and the elimination of some price controls, regulatory accumulation continued throughout the decade, slowing temporarily before returning to the previous trend.¹⁷⁴

Box 4-1. Private Versus Public Sector Research and Development

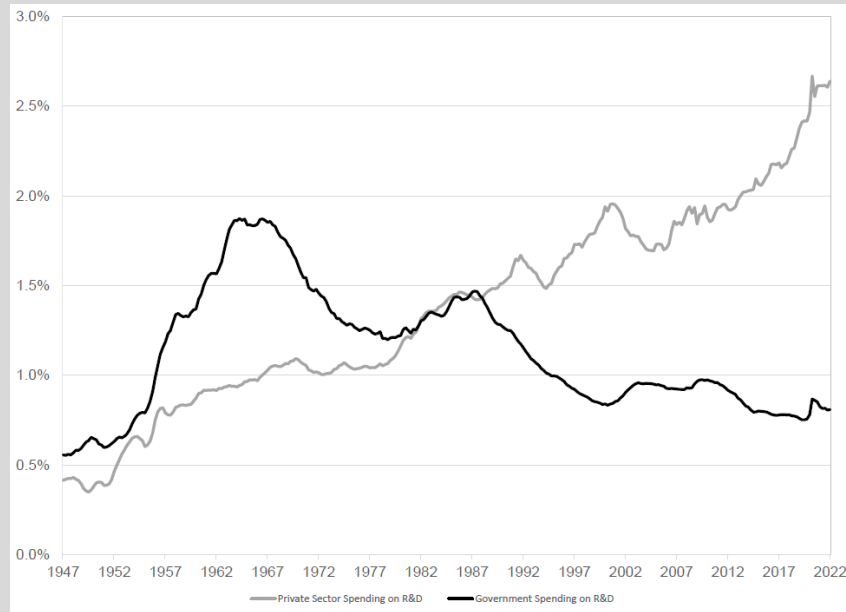
One area where Government growth has not outpaced the private sector is research and development (R&D). Total R&D spending increased from 2.7 percent of GDP in 1970 to 3.5 percent of GDP in Q1 2022, driven primarily by the private sector. Figure 4-5 shows that inflation adjusted private sector spending on R&D increased 654 percent (\$558 billion) between Q1 1970 and Q1 2022 while Government spending on R&D only increased 56 percent (\$71 billion). Over this period, private sector spending on R&D as a share of GDP increased from 1.1 percent to 2.6 percent

while Government spending on R&D as a share of GDP decreased from 1.6 percent to 0.8 percent.

The fact that total R&D spending has increased in real terms and as a share of GDP belies the *Report's* claim that the past several decades have seen “inadequate investment” in research. While it is true that Government spending on R&D as a share of GDP has fallen, there is limited evidence that additional Government spending is needed or would mark a substantial improvement over the heavy investment already present from the private sector.¹⁷⁵

In fact, Government R&D spending has often been criticized as less efficient than private spending. For example, a large portion of the elevated Government R&D spending in the 1960s and 1980s represented spending related to Cold War competition with the Soviet Union. The research leaned heavily on military uses and has been criticized in the academic literature, including by a National Academy of Sciences roundtable, as feeding a “redundant and perhaps wasteful” research industry that was driven primarily by incentives to chase funding.¹⁷⁶ While Government spending on R&D as a share of GDP fell in the decades following the Cold War, it has been more than offset by growth in private sector spending.

Figure 4-5: Private versus Public Sector Spending on Research and Development as Share of GDP, 1947–2022



Source: Bureau of Economic Analysis.

There is little evidence that any period in recent history has represented a broad retreat of the public sector. Instead, the past several decades have represented an acceleration in the growth of Government by multiple different metrics. In the limited cases where Government has relaxed some of its onerous rules, namely deregulation of airlines, trucking, and railroads, consumers have experienced broad-based benefits in the form of significant cost savings and a greater variety of options.

Consequences of an Expanding Public Sector

Where the *Report* blames slower economic growth on a depleted public sector, this *Response* argues that the opposite is more likely to be true, that burdensome growth of the public sector has been a major driver of the slowing growth trends in recent decades. This section documents evidence that growth in Government since the 1970s—in terms of regulation, spending, and taxes—is a major cause of muted economic growth in the United States.

Regulations can create excessive burdens for individuals and businesses alike. These rules and mandates can disincentivize firms from growing larger to take advantage of economies of scale, entering new markets, bringing new products to consumers, or investing in talent development. As these costs accumulate, the burden weighs on overall economic growth and productivity.

The American Action Forum reports that since 2005 the cumulative economic impact of Federal rulemaking as estimated by Federal agencies amounts to \$1.3 trillion.¹⁷⁷ These economic impact estimates are calculated by agencies over a limited time frame (e.g. 10 years) and fail to account for all of the possible ways that regulation can prove detrimental to economic growth, including ways in which regulations may interact to worsen growth. Additionally, the latest available OMB Information Collection Budget (2018) found that the annual paperwork burden imposed by Federal Government regulation since the passage of the *Paperwork Reduction Act* (1980) amounted to 11.5 billion hours annually.¹⁷⁸ Without including the more than 480 million additional annual paperwork hours imposed by agencies since the release of the latest OMB report, at the average private sector wage as of April 2022, this paperwork burden would amount to more than \$360 billion in wages spent on unproductive economic activity, with the actual cost likely much higher as compliance staff are typically lawyers and other highly paid professionals.¹⁷⁹

Economists estimate that the true cumulative cost of regulations is far larger than that reported by Federal agencies.¹⁸⁰ Federal economic impact estimates fail to account for a majority of regulations and often miss many of the ways that the rules could prove detrimental to economic growth. Bentley Coffey, Patrick McLaughlin, and Pietro Petro find that the U.S. economy would have been 25 percent larger in 2012 if regulation had been held constant at 1980 levels, implying that regulatory growth since 1980 reduced 2012 GDP by \$4 trillion.¹⁸¹ In 2012, this amounted to approximately \$13,000 per capita in lost output.

Using a different method and time period, John Dawson and John Seater estimate an even larger impact of regulation on economic growth. They find that regulation reduced economic growth between 1949 and 2005 by 2 percent annually, implying the 2005 economy was 28 percent of the size it could have been had regulation remained constant at 1949 levels.¹⁸² Dawson and Seater also find that changes in regulation likely contributed to the productivity slowdown in the 1970s.¹⁸³ Dustin Chambers, McLaughlin, and Oliver Sherouse find that regulatory growth depresses new firm startups and job creation rates by between 4 percent and 20 percent annually across industries.¹⁸⁴ German Gutiérrez and Thomas Philippon find that, in comparison to other possible explanations such as returns to scale or changes in technology, regulation and taxation can effectively explain the recently observed decline in new firm startup rates and dynamism within industries.¹⁸⁵

Government spending, and the taxation needed to finance it, also imposes costs that depress economic growth. While some studies find that Government spending on the protection of property rights and certain types of physical infrastructure investments can support growth, the benefits of Government spending decline as the public sector expands relative to the private sector.¹⁸⁶ Too

much Government spending on unproductive ends can inflate prices in markets, crowd out private investments that face competition with Government, encourage corruption and rent-seeking for Government-granted privileges, and reduce economic mobility by subsidizing non-work through income transfer programs and other benefits.

Any benefit from Government spending is offset by the costs of the taxes necessary to finance the expenditures. The negative effects of taxation in suppressing economic growth are well supported in a range of academic research. Taxes on labor income reduce incentives to work and innovate and taxes on capital and investment income discourage the private investment necessary for sustained economic growth. Former Chair of the Council of Economic Advisers for President Obama, Christina D. Romer, and coauthor David H. Romer find that a one percent increase in taxation as a share of GDP leads to a decrease of almost three percent in real GDP.¹⁸⁷ Valerie Ramey corroborates that tax increases reduce GDP by between two and three times the revenue raised.¹⁸⁸ William McBride likewise concludes that “nearly every empirical study of taxes and economic growth published in a peer-reviewed academic journal finds that tax increases harm economic growth.”¹⁸⁹

The U.S. Government has not retreated since the 1970s, but instead has expanded significantly as measured by regulations and spending. These Government activities reduce rather than enhance the goal of promoting economic production set forth in the Employment Act.

Box 4-2. Costs of Industrial Policy

The *Report* argues that a lack of Government involvement in industrial production and trade worsened economic turmoil in 2021. To remedy this, it recommends a more active Federally directed industrial policy that restricts trade to promote domestic industries and subsidizes politically popular domestic manufacturers. The *Report* admits in Chapter 7 that industrial policy has had a mixed track record in the United States and in other countries. But it goes on to suggest that “many failed efforts might have been avoided with better processes for strategically targeting industrial policy opportunities.”¹⁹⁰

Unfortunately, the *Report* stops there, making no mention of the *costs* of industrial policy. Not only does Government intervention in domestic manufacturing impose opportunity costs by discouraging private investment, but the projects themselves often cost more than initial projections and the benefits are almost always overstated.¹⁹¹ It is also likely that any industrial policy efforts would no longer offer the needed innovation by the time they are completed, as Government projects often take ten years or more to complete¹⁹² and as politicians are rarely suited to predict future market needs.¹⁹³ The relative inefficiency of Government planning and the disconnect between Government and market priorities are some of the unavoidable reasons why past industrial policy efforts have failed and why “better processes” are unlikely to make a difference.

The *Report* praises Japanese industrial policy in the 1980s, claiming that Government intervention helped Japan to increase its international competitiveness.¹⁹⁴ Yet, Japanese industrial policy missed the mark on strategic investment and resulted in multiple planning failures, corruption, and an economic collapse that launched Japan into its lost decade.¹⁹⁵

Pursuing a Pro-Growth Agenda

To support growth and prosperity, policymakers should limit the size and involvement of Government in the affairs and decision-making of the private sector. Government should seek to reduce the regulatory, spending, and tax burdens it imposes on its citizens. The pro-growth policies of deregulation and tax cuts implemented in the pre-pandemic economy benefited low-income and otherwise disadvantaged Americans the most through a strong labor market and a healthy, growing economy. The President's agenda outlined in the *Report* and the Fiscal Year 2023 Budget ignore these lessons by raising taxes, increasing spending, and advancing an agenda of increasingly costly regulations.

For example, the Budget plans to raise about \$954 billion in tax revenue by increasing the corporate income tax rate by 7 percentage points from 21 percent to 28 percent.¹⁹⁶ Such an action would leave American businesses paying the highest combined corporate tax rates in the developed world. President Biden's other tax proposals could raise total combined top marginal personal income tax rates by 14.4 percentage points (from 42.9 percent to 57.3 percent) and capital gains tax rates by 19.7 percentage points (from 29.2 percent to 48.9 percent).¹⁹⁷ These tax increases would put American personal and businesses tax rates well above the international norm. The result would be less private investment, slower economic growth, and weaker income gains for American families.

The Biden Administration has also implemented an aggressive and costly regulatory agenda, repealing the Trump Administration's two-for-one regulatory budget and beginning to rollback other major regulatory reforms that took place between 2017 and 2020. In 2021, major new regulations by the Biden Administration are estimated by Federal agencies to impose at least \$201 billion in regulatory costs on the American economy.¹⁹⁸ Looking forward,

the Biden Administration's 2022 regulatory agenda, relative to the prior administration, reflects a 35 percent increase in regulatory actions and a 186 percent increase in economically significant rulemakings—those that have an annual effect on the economy of \$100 million or more.¹⁹⁹ These actions increase policy uncertainty, actively discourage investment and production, and increase costs for American families.

The *Report's* proposals may lead to what appear to be small decreases in economic growth rates, but even small changes can have large long-term effects. Thus, policies that reduce levels of inequality—a key focus of the *Report*—at the expense of overall growth would ultimately do more harm than good to the long-term living standards of the very individuals these policies are designed to support. Given that taxation and spending are the primary mechanisms by which the Government would address inequality, the policies proposed in the *Report* are likely to be counterproductive to their stated goals of raising long term growth and improving the well-being of all Americans.

Congress and the President should instead cut regulations, reduce Federal outlays, and keep taxes low to help return our economy to one of low inflation, full employment, and sustainable long-term growth. These types of pro-growth reforms that *actually* allow the Government to retreat are the best path toward reversing the worrying economic trends identified by the *Report*. Following pro-growth reforms under the Trump Administration, GDP growth in 2017, 2018, and 2019 surpassed forecasters' expectations and resulted in gains for American families.²⁰⁰ In 2019, unemployment fell to 3.5 percent, its lowest level since 1969, and real median household income grew by a record 6.8 percent to an all-time high of \$68,700.²⁰¹ These income gains and historic levels of job growth—particularly for women and minorities—caused poverty to fall to a record low for every race and ethnic group, with Black

and Hispanic poverty falling the most. The four years before the pandemic also marked the reversal of a 20-year decline in prime-age labor force participation, rising in January 2020 to 83.1 percent, a level not seen since 2008.²⁰² Private nonresidential fixed investment rose to more than 9 percent above trend, increasing long run potential output by as much as 3 percent.²⁰³

To reduce the burdens of regulation, Congress and the President could reinstate a regulatory budget, implement standard sunset requirements for new regulations, require Congress to authorize economically significant regulations and set up regular ex-post reviews of rulemaking. These reforms would help increase accountability of Federal agencies and reinsert Congress in the process of ensuring regulations meet the statutory intent of the authorizing legislation. Additionally, given the worsening of the national housing affordability crisis, policies that Constitutionally address the effect of local land use restrictions on housing supply can have a large positive effect on economic growth by expanding access to economic opportunity and more productive labor markets.²⁰⁴

Box 4-3. Regulatory Budgeting and Review

In 1979, the first *Response* endorsed by both the Majority and Minority members unanimously recommended a regulatory budget, stating that “the current regulatory process fails to recognize the goals of regulatory programs must be balanced with other national objectives.”²⁰⁵ The report called for Congress to amend the *Congressional Budget and Impoundment Control Act of 1974* to establish a regulatory budget that would limit the costs of compliance imposed by each agency, stating that such a budget would better quantify the economic burden that the Federal Government imposes on the economy.

While this proposal was not ultimately implemented, examples of effective regulatory budgeting and review systems can be found in Canada as well as in other Organisation for Economic Co-operation and Development (OECD) countries including Australia, the United Kingdom, and Portugal. Canada has implemented both targeted regulatory reviews and a regulatory budget.²⁰⁶ This approach is modeled after the red-tape reduction success of British Columbia, encouraging agencies to reduce red-tape and review and modernize regulations with support and involvement from the private sector.²⁰⁷ Within three years of implementing its regulatory reforms, British Columbia reduced its regulatory burden by 37 percent. Following the reforms, GDP growth in British Columbia accelerated from an average annual growth rate 0.7 percent below the Canadian average in the decade prior to implementing regulatory reform, to outpacing broader economic growth in Canada annually by nearly a full percentage point through 2020.²⁰⁸ Similarly, Portugal implemented a one-for-one regulatory budget and the United Kingdom has established requirements for agencies to identify simplification measures and offsets for all major proposals.²⁰⁹

To reduce spending and the commensurate tax burden the Government imposes on its citizens,²¹⁰ Congress will need to act in the immediate future to keep taxes from increasing automatically following the expiration of the *Tax Cuts and Jobs Act* after 2025. Beyond keeping taxes from rising, Congress and the President should pursue additional reforms that bring spending in line with tax revenues and continue to lower the tax burden for all Americans.

Economic growth is critical for supporting the long-term prosperity, fiscal stability, and material wellbeing of all Americans. As a central goal of the Employment Act, promoting maximum production should continue to be a key goal of the

Government. The *Report* does well to focus on this important goal, but misdiagnoses key economic events and provides policy proposals that will undermine, rather than promote economic growth and production. Reducing Federal outlays to keep taxes low, cutting unnecessary regulations, and removing disincentives to work would go a long way towards returning our economy to one of low inflation, full employment, and long-term growth.

CHAPTER 5: SOCIAL CAPITAL

This final chapter of the *Response* covers social capital, which refers to the relationships within families, workplaces and communities that enable a healthy society and are a crucial ingredient for economic growth. The three main goals of the *Employment Act of 1946* are addressed in Chapter 2 through Chapter 4. Here, we supplement our chapters on employment and production by investigating trends that have been particularly battered during the pandemic and represent foundational structures on which employment and production are ultimately based.

The *Response* highlights trends in social capital for two reasons. First, social capital is a central but often overlooked factor underlying economic growth and general well-being, key goals of the Employment Act which directs public policy to “foster and promote...the general welfare” and maximize employment and production.²¹¹ Second, declines in social capital in recent decades, accentuated by Government policies during the COVID-19 pandemic, make social capital an especially important topic today as policymakers seek to advance economic prosperity through increased employment and growth.

In recognition of the importance of social capital in fostering a strong society and economy, Ranking Member Mike Lee introduced the Social Capital Project in 2017 to document trends in social capital and develop a policy agenda to strengthen the social fabric of the nation. The Project focuses on five areas: increasing family stability, making it more affordable to raise a family, reconnecting Americans to work, improving investment in youth, and rebuilding civil society.

This chapter discusses the current state of several trends related to social capital, many of which were affected by economic and

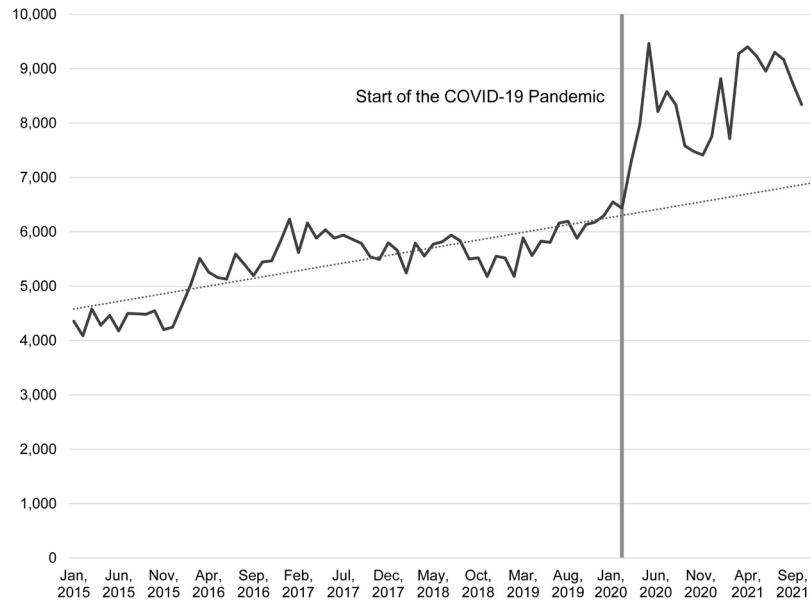
social restrictions during the COVID-19 pandemic. These include drug overdose deaths, homicides and violent crime, learning loss among children, poor teen mental health, and declining family formation. Each of these trends are in part the product of social isolation and disconnection from community, key components of social capital.

The *Report* largely neglects these topics, despite their large economic costs and implications for achieving the Employment Act’s economic goals. For example, we estimate that the 170,000 drug overdose deaths over the 20-month period since the pandemic began carried an economic cost of almost \$2.0 trillion. The *Report* fails to discuss this surging epidemic, mentioning the words “opioid” or “drug” only a total of three times in the context of drug abuse. In contrast, the *Report* uses the word “equity” nearly 40 times. The *Report* also fails to address costs of skyrocketing homicides or the policy mistake of shutting down schools. The *Response* highlights these issues as a means of informing policymakers on some of the most pressing threats to societal and economic strength today.

Drug Overdose Deaths

The U.S. has been facing an epidemic of drug abuse for decades that became much worse during the COVID-19 pandemic.²¹² After rising steadily since the early 2000s, drug overdose deaths began to level off in January 2017 at just over 6,000 deaths per month, picking up to about 6,400 deaths by February 2020 just before the pandemic emerged (see Figure 5-1). Drug overdose deaths then spiked to 7,268 in March 2020 and jumped even higher to 9,463 in May 2020. During the 12-month period ending in October 2021, overdose deaths reached almost 104,000—nearly the highest 12-month total ever recorded.²¹³

Figure 5-1: Drug Overdose Deaths by Month, January 2015-October 2021



Source: Centers for Disease Control and Prevention. National Center for Health Statistics. National Vital Statistics System. Mortality 1999-2020 on CDC WONDER Online Database, released in 2021.²¹⁴

Notes: JEC calculations with linear trendline fitted based on data from January 2015 through February 2020.

The pandemic, and policies implemented in response to the pandemic, likely caused the major growth in drug overdose deaths since early 2020. Of the nearly 170,000 drug overdose deaths between March 2020 and October 2021, approximately 37,000 were in excess of the number of deaths that would have been expected if deaths evolved along their pre-pandemic trend (a death toll approximately 28 percent higher than expected). Consistent with these results, Casey Mulligan estimates the pandemic and related recession were associated with a 10 percent to 60 percent increase in “deaths of despair” more broadly (deaths from drug overdose, suicide, and alcohol) in 2020.²¹⁵

The cost of the loss of life due to overdose deaths in 2020 and 2021 is staggering. We estimate the economic cost of drug overdose deaths by applying a value of statistical life (VSL) to each life lost. The VSL is used by Federal agencies to evaluate the costs and benefits of policies that involve mortality risks. A VSL of \$11.8 million is the preferred estimate used by the Department of Transportation as of 2021. Applying the VSL to drug overdose deaths, the economic cost of the 37,000 excess deaths during the pandemic (between March 2020 and October 2021) was approximately \$437 billion.²¹⁶ This is 22 percent of the nearly \$2.0 trillion cost of all overdose deaths during this period.²¹⁷

Nonfatal effects of drug abuse have major costs as well. Jeremy Greenwood, Nezih Guner, and Karen Kopecky estimate that increased substance use explains between 9 percent and 26 percent of the reduction in labor force participation among prime-age adults (aged 25 to 54) during the first 17 months of the pandemic.²¹⁸ Prime-age adults disproportionately suffer from substance abuse, reflected by the fact that almost 70 percent of overdose deaths between March 2020 and December 2020 were people of prime working age.²¹⁹

The rise in drug abuse and its attendant costs were likely fueled by a combination of pandemic-related policies that began in 2020 and continued into 2021, including Federal policies that boosted incomes while discouraging work, making it easier to afford drugs and reducing the opportunity cost of abusing them. Casey Mulligan finds that elevated overdose deaths during the early months of the pandemic only began to fall when supplemental Unemployment Insurance payments were reduced.²²⁰ Jon E. Sprague et al., using data from the Ohio Department of Health, find that economic impact payments during the pandemic were associated with higher rates of opioid overdoses.²²¹

Social distancing and restrictions on gatherings likely also contributed to increased drug overdose deaths during the pandemic. Social isolation can contribute to worsened mental health and subsequent increased drug use among users.²²² The pandemic and social distancing policies also reduced the availability of drug treatment services and likely dampened people's desire to seek out treatment. A survey by the National Association of Addiction Treatment Providers administered in August 2020 and September 2020 found that 43 percent of treatment providers decreased their patient capacity due to COVID-19.²²³ In another study using data from California's Outcomes Measurement System, Tami L. Mark et al. find that initiation of drug treatment services decreased by 28 percent between March 2020 and October 2020, compared to pre-COVID-19 levels.²²⁴

Less policing of drug offenses during the pandemic may have also increased accessibility of illegal drugs. Even as drug overdoses climbed, the rate of people convicted for drug offenses (manufacturing, selling, or possession of illicit drugs) declined for most of 2020 and at least through the first quarter of 2021.²²⁵

Unfortunately, the Biden Administration has failed to fully recognize the severity of the drug epidemic, the role of its policies in fueling the problem, and the most productive ways of addressing it. In April 2022, the Biden Administration released a drug control strategy that heavily focuses on harm reduction.²²⁶ Harm reduction attempts to make drug use safer by providing clean needles and supervised sites for drug use, among other provisions. However, a harm reduction approach not only fails to promote recovery from addiction, it fails to prevent people from becoming addicted in the first place.²²⁷

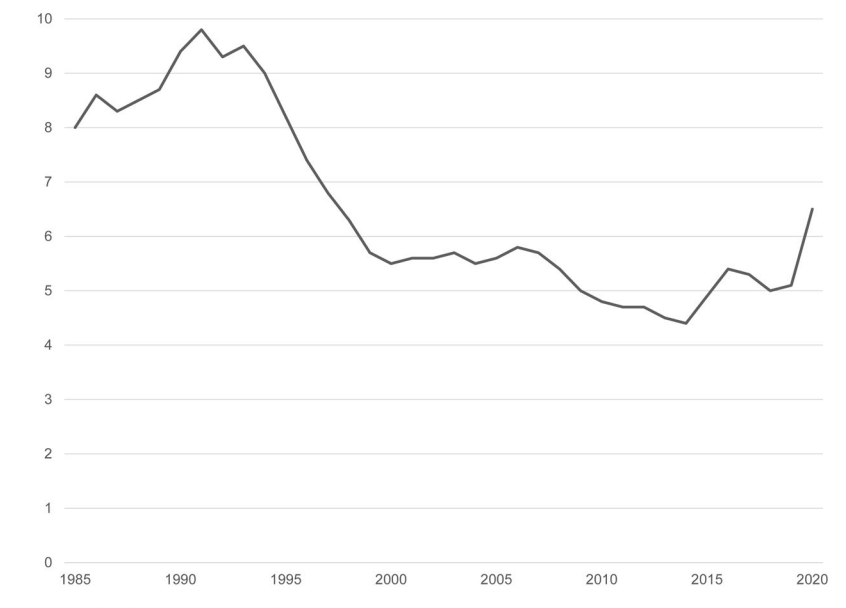
Countering the drug epidemic requires addressing the factors that cause and exacerbate it. Government policies that subsidize non-work should not be reintroduced. Shutdowns that unnecessarily limit Americans' ability to receive treatment, work, or socialize should be avoided. The Federal Government could also block the influx of illicit drugs into the country through ports of entry at the southern border and through the mail from factories in China. But as a first step, the Biden Administration should recognize the record scale of the surging drug epidemic. The fact that the *Report* dedicates almost no attention to the problem—mentioning the words “drug” or “opioid” a total of three times in the context of drug abuse—demonstrates the Administration is falling short even on this first step.

Homicide and Violent Crime

After the U.S. homicide rate fell by almost half from 1991 to 2019, it spiked by 27 percent in 2020, rising from a rate of 5.1 to 6.5 victims per 100,000 people (see Figure 5-2). Rising violent crime imposes high social and economic costs on affected communities; in addition to direct costs to victims, it threatens the ability to work and consume safely, reducing economic activity and the well-being of citizens.

According to the Centers for Disease Control and Prevention, there were 24,576 homicide deaths in 2020.²²⁸ These homicides represent an economic cost of almost \$290 billion, assuming a VSL of \$11.8 million. These costs were borne in large part by majority Black and Hispanic neighborhoods that saw the largest annual increases in homicides in 2020.²²⁹ Provisional data from the CDC show homicides remained elevated in the first two quarters of 2021. Relative to its Q1 2020 rate, the homicide rate was 20 percent higher in the Q1 2021 and 36 percent higher in Q2 2021.²³⁰

Figure 5-2: Homicides Per 100,000 Population by Year, 1985-2020



Source: Federal Bureau of Investigation. Crime Data Explorer. <https://crime-data-explorer.app.cloud.gov/pages/explorer/crime/crime-trend>.

Richard Rosenfeld of the University of Missouri suggests the increased homicide rate could be attributed to a variety of factors: economic challenges associated with the pandemic, social unrest surrounding the killing of George Floyd, reduced policing as a result of the pandemic, political pressure against policing, law enforcement staffing shortages, increased drug use, and greater access to guns.²³¹ Julia P. Schleimer et al. find that unemployment in the early months of the pandemic was associated with higher rates of gun violence and homicide, although not with acquisitive crime (e.g., theft, burglary, robbery) or aggravated assault.²³²

In spite of the alarming increase in homicides and the substantial costs it imposes on families and communities, the *Report* overlooks the problem. Given the link between violent crime and

unemployment, addressing the spike in homicides can begin with not reintroducing policies that discourage work. In addition, local Governments should support law enforcement in protecting communities against violent crime.

Learning Loss and Mental Health among Children and Youth

In 2021, the majority of children in the United States continued to experience disruptions in their schooling due to persisting school closures that began in 2020 at the onset of the pandemic. In the spring of 2021, only 18 percent of schools were operating fully in person, 24 percent remained fully remote, and 51 percent were operating under a hybrid model.²³³ One year later, in the spring of 2022, schools have mostly returned to in-person learning, with 92 percent fully in person and only 0.5 percent fully remote.²³⁴

School closures not only pushed children into less productive virtual learning environments, they also led some children to stay out of school altogether. Total public school enrollment for all grade levels decreased three percent between the 2019-2020 and 2020-2021 school years, with pre-kindergarten and kindergarten enrollment down by 13 percent.²³⁵ Declining public school enrollment, particularly among young children, may reflect some families shifting to non-public schooling options, such as private or home schooling, but it likely also includes some children not enrolling in any type of formal education.

Disruptions in schooling that persisted into the first half of 2021 imposed significant learning loss on children. According to the Penn Wharton Budget Model, school disruption led to learning loss equivalent to 0.42 fewer years of reading and 0.43 fewer years of math during the 2020-2021 school year.²³⁶ In another study examining school testing data among students in the first through eighth grades, researchers found that fewer students were prepared for grade-level reading or math in the spring of 2021 compared to

previous years.²³⁷ Younger students were particularly ill-prepared for grade level reading or math.²³⁸

Learning loss was greater among disadvantaged students, as children in disadvantaged communities typically experienced fewer days of in-person schooling during the pandemic.²³⁹ These students are less likely to have a high-quality learning environment at home free of distractions, less likely to have access to their own devices dedicated to remote instruction, and less likely to engage in online school with the same consistency as students from higher-income families.²⁴⁰

Learning loss from prolonged school closures will have long-lasting economic consequences. A McKinsey & Company report by Emma Dorn et al., estimates that learning loss from the pandemic could cost the average K-12 student in the United States \$61,000 to \$82,000 (in constant 2020 dollars) in lifetime earnings.²⁴¹ The Penn Wharton Budget Model estimates learning loss during the 2020-2021 school year will lead to a drop in labor productivity of 0.45 percent in the year 2031 and an even further decline of 1.12 percent in 2051 as the age cohorts affected by the pandemic come to make up a larger share of the labor force and enter their peak earning years.²⁴² Declining labor force productivity due to pandemic learning loss is projected to decrease GDP by 1.4 percent in 2051.²⁴³

Given the *Report's* focus on equity, learning loss due to school closures should be an area of major concern to the Administration. While the *Report* discusses pandemic learning loss and the particular impacts of school disruptions for disadvantaged students, it should also have pointed out that the months-long Government shutdowns of largely Government-run schools that caused the learning loss were mostly unnecessary.

By the end of the fall 2020 semester, several studies had been conducted on school transmission of COVID-19, with most finding K-12 schools generally did not contribute significantly to community spread of the virus.²⁴⁴ In early February 2021, Dr. Rochelle Walensky, Director of the Centers for Disease Control and Prevention, said schools were safe to reopen even if teachers had not yet been vaccinated.²⁴⁵ While the Biden Administration issued an executive order in January 2021 to support the reopening of schools, the Administration allowed teachers unions to influence CDC policy for school reopening.²⁴⁶ The Administration's heed to the political interests of teachers unions over social and educational interests of children likely kept many schools shuttered or in hybrid mode longer than necessary, exacerbating learning loss.²⁴⁷

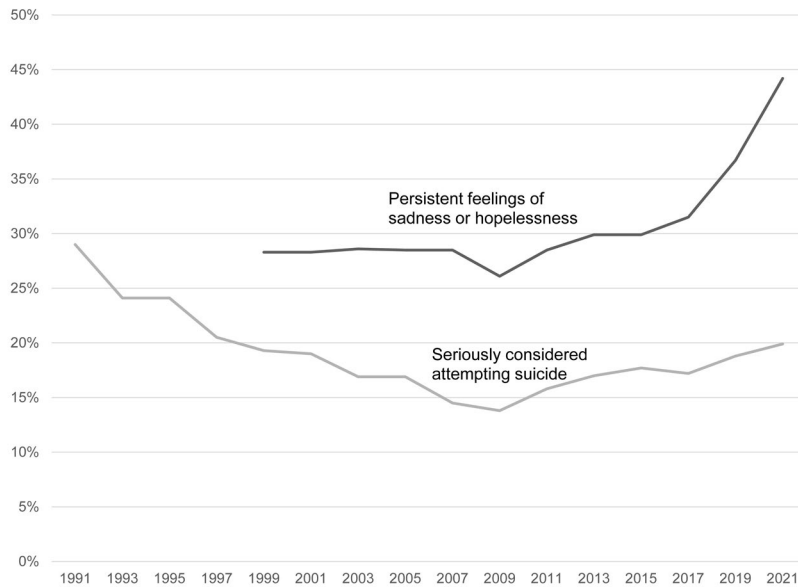
The lack of educational options for families during the pandemic has underscored the importance of educational choice for families. Instead of families being limited to their neighborhood public schools, policies that provide parents with the ability to choose from a variety of education options can help families better meet their children's educational needs. Educational choice could have provided more options for families where public schools were closed unnecessarily. Educational choice policies also could have helped reduce contentious public debates surrounding school closures and reopening by allowing families to decide what type of school environment works best for them.

Teen Mental Health

In addition to learning loss, some measures of mental health among youth worsened in 2021, continuing an already troubling trend of deteriorating mental health among American teens.²⁴⁸ Teen mental health in the United States has worsened steadily during roughly the past decade, with increases in the rates of

depression, suicidal thoughts, and suicide among teens.²⁴⁹ In the spring of 2021, 44 percent of U.S. teenagers reported feeling persistently sad or hopeless during the past year, up from 37 percent in 2019 (see Figure 5-3). The share of high school students seriously considering suicide increased slightly from 19 percent to 20 percent between 2019 and 2021 (see Figure 5-3).

Figure 5-3. Share of High School Students Reporting Mental Health Conditions, 1991–2021

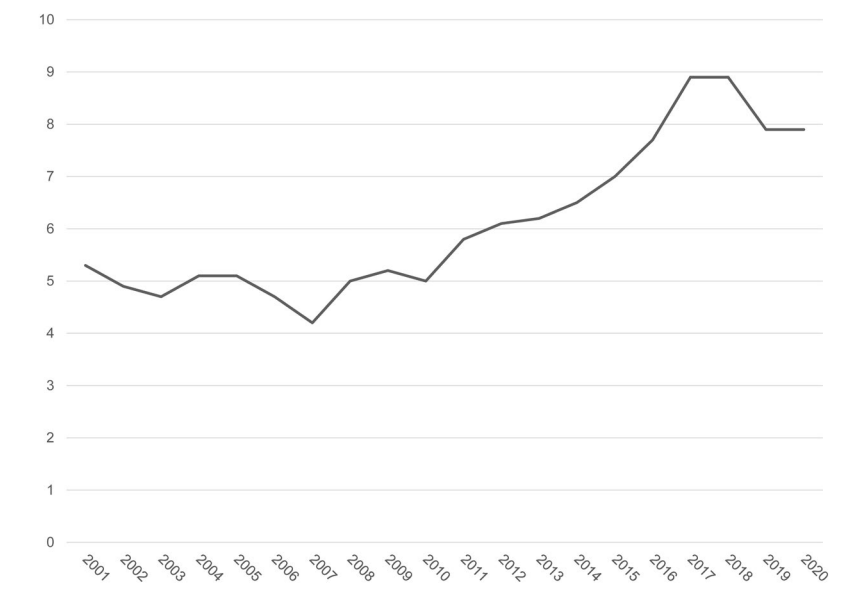


Source: Centers for Disease Control and Prevention. Youth Risk Behavior Survey.
<https://www.cdc.gov/healthyyouth/data/yrbs/data.htm>, data documentation various years; Trends in the Prevalence of Suicide-Related Behaviors National YRBS: 1991-2019.
https://www.cdc.gov/healthyyouth/data/yrbs/factsheets/2019_suicide_trend_yrbs.htm; and Morbidity and Mortality Weekly Report (*MMWR*), Table 2.
<https://www.cdc.gov/mmwr/volumes/71/su/su7103a3.htm>.

Whether school closures or other challenges related to the pandemic negatively affected teens' mental health is unclear, given that teen mental health was already worsening prior to the pandemic. In addition, actual suicide rates among high school-age

students stayed relatively flat between 2019 and 2020, after rising steadily between 2008 and 2017 and declining somewhat in 2018 (see Figure 5-4).²⁵⁰ Increased parental supervision during the pandemic, due to teens being at home more, may have helped keep teen suicide rates from increasing. Parents may have been able to recognize signs of suicide risks earlier and intervene, including taking their children to the hospital. Data on teen suicide are not yet available for 2021, so time will tell whether the leveling off of suicide among teens continued, or whether re-opening of schools in combination with further erosion of underlying mental health will drive a renewed increase in teen suicides.²⁵¹

Figure 5-4: Number of Suicides Among Youth Ages 14 to 17 per 100,000 Population, 2001-2020



Source: Centers for Disease Control and Prevention. <https://wisqars.cdc.gov/data/explore-data/home>.

Addressing declining teen mental health is challenging, particularly since the causes are not fully understood. Still, civic

institutions like schools, churches, and other community organizations could help inform families about trends in teen mental health, familiarize parents with the symptoms of depression and suicidal behavior, and connect families with mental health services. Because researchers have identified connections between increased social media use and declining teen mental health, Federal policymakers could redirect some current funding to research the effects of social media on youth mental health.²⁵²

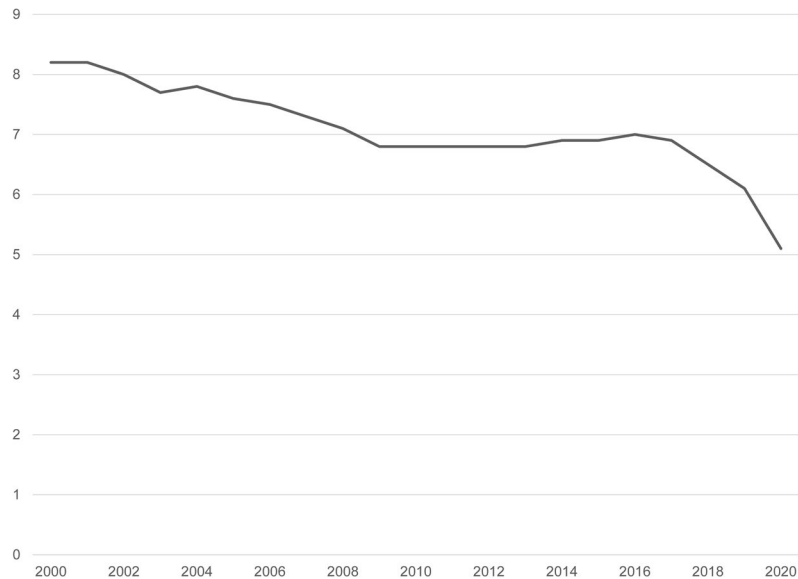
Declining Family Formation

Another concerning long-term trend that has worsened in recent years is family formation, specifically falling marriage and birth rates. The most intimate and central form of social capital is the family—an institution with primary responsibility for nurturing and transmitting societal values to the next generation of children. Strong families enable investment in the human capital of children that increases their skills and productivity as adults, leading to increased long-run economic growth.

Declining Marriage Rate

While the marriage rate in the U.S. has declined for years, it dropped by 16 percent between 2019 and 2020 (see Figure 5-5).²⁵³ The steep drop was expected, given many weddings were postponed due to the COVID-19 restrictions on social gatherings. Marriages picked up again in 2021, according to provisional data in some States, as postponed weddings from 2020 took place.²⁵⁴ Still, severe limits on socializing during the pandemic have decreased opportunities for people to meet and date, potentially leading to fewer marriages in coming years than otherwise would have occurred, possibly exacerbating the downward trend in marriage rates.

Figure 5-5: Marriages Per 1,000 Population, 2000-2020



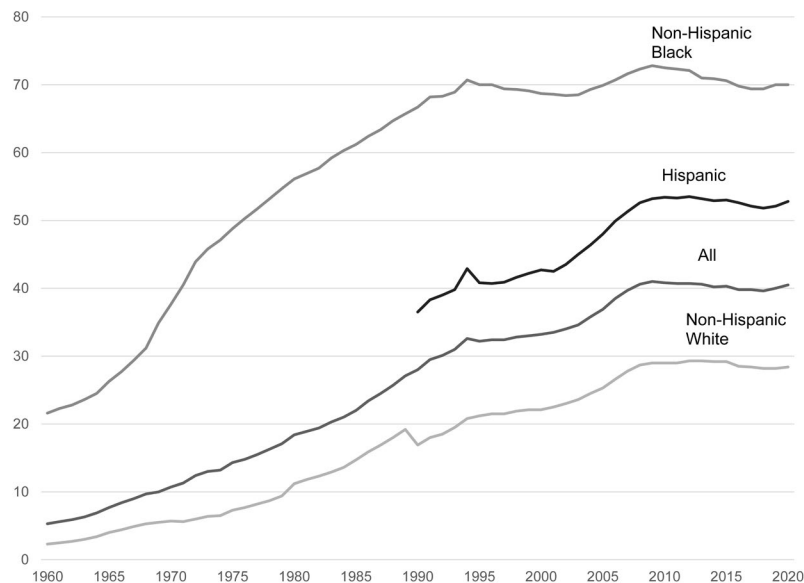
Source: Centers for Disease Control and Prevention. National Center for Health Statistics.
<https://www.cdc.gov/nchs/data/dvs/national-marriage-divorce-rates-00-20.pdf>.

The decline in marriage has negative consequences for children, as more children are born outside of marriage. Children in married-parent homes are substantially less likely to experience poverty, have higher educational achievement, and have better physical and emotional health.²⁵⁵ Stable two-parent families also impart benefits beyond the immediate family; children raised in communities with a greater share of fathers present achieve greater social mobility, according to research by Harvard economist Raj Chetty.²⁵⁶ As the Joint Economic Committee has written previously: “As sources of valuable social capital, few relationships are as important as the family ties between parents and children.”²⁵⁷

While most college-educated adults marry and raise their children in married-parent homes, the majority of children born to non-

college-educated mothers are born outside of marriage.²⁵⁸ The racial divide in unwed childbearing is also stark. In 2020, more than two-thirds of Black children, more than half of Hispanic children, and more than a quarter of White children were born to unwed mothers.²⁵⁹ The share of births to unmarried women in the U.S. increased slightly in 2020 after decreasing for several years, with increases among all racial groups, but the biggest increase was among Hispanic women (see Figure 5-6).²⁶⁰

Figure 5-6: Share of Births to Unwed Mothers, by Race and Ethnicity, 1970–2020

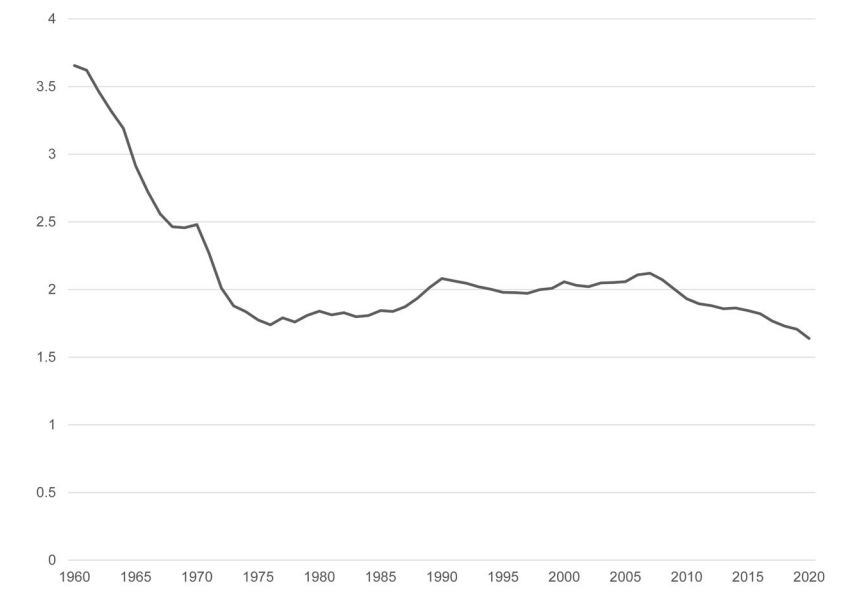


Source: U.S. Department of Health and Human Services. Centers for Disease Control and Prevention. National Center for Health Statistics, various reports.²⁶¹

Declining Fertility Rate

Declining marriage rates are linked with declining fertility.²⁶² As seen in Figure 5-7, in most years since the early 1970s, the total fertility rate in the United States (the number of children a woman is projected to have in her lifetime) has been below the replacement level of 2.1 (the number of children born per woman needed to replace the current population).²⁶³ After remaining fairly stable for several decades, the fertility rate began to decline starting with the 2008 recession, and in 2020 reached an all-time low of 1.6.²⁶⁴ Provisional data for 2021 show the total fertility rate ticked up slightly to 1.7, the first increase in years, yet total fertility is still well below replacement level.²⁶⁵

Figure 5-7: Total Fertility Rate, United States, 1960-2020



Source: Federal Reserve Bank of St. Louis. Federal Reserve Economic Data. Fertility Rate, Total for the United States. <https://fred.stlouisfed.org/series/SPDYNTFRTINUSA>

Note: Total fertility rate is defined as the number of children a woman is projected to have in her lifetime

Declining fertility has detrimental economic effects by shrinking the workforce, reducing innovation due to fewer people coming up with new ideas, and weakening overall economic growth. Fewer working-age adults also means a smaller share of people contributing to Government social programs upon which a large number of older adults rely. Fewer siblings means fewer people with whom to share the responsibility of caring for aging parents, making it more challenging for prime-age adults to balance work and family responsibility.

Marriage can be strengthened by local and community efforts to promote the benefits of healthy marriages. States can provide marriage education to help couples form and maintain stable relationships. And Federal policymakers can reduce marriage penalties in means-tested social programs and the tax code.²⁶⁶ Fertility can be bolstered by strengthening the families, religious organizations, and communities that support families.

Conclusion

Over the past year, several problems related to social capital have worsened, many of which were affected by Government policies and social restrictions during the COVID-19 pandemic. Rising drug overdose deaths, rising homicides, learning loss among children, poor teen mental health, and declining family formation all pose a threat to the social and economic well-being of the United States. Some of these problems are a continuation of a decades-long trend and were made worse during the pandemic. For years, Americans have experienced weakening family stability, declining connection to the labor force, decreasing participation in community organizations, and greater fissures in our civic life.

During the last five years, the Joint Economic Committee's Social Capital Project has proposed a variety of policy options designed

to help strengthen individuals, families, and communities.²⁶⁷ These policies include those that would help couples build and maintain healthy marriages, give families greater educational opportunity, remove barriers to work, and encourage philanthropic giving. Policies that strengthen social capital will help rebuild civil society and in so doing, bolster economic prosperity.

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1. Counterfactual Seasonally Adjusted Effect of Energy on All Items in March 2022 = [Counterfactual Monthly Growth Rate in Energy Prices / Actual Monthly Growth Rate in Energy Prices] x Seasonally Adjusted Effect of Energy on All Items in March 2022
2. Counterfactual Monthly CPI Growth Rate, February 2022 to March 2022 = Actual March 2022 CPI + [Counterfactual Seasonally Adjusted Effect of Energy on All Items in March 2022 - Seasonally Adjusted Effect of Energy on All Items in March 2022]
3. Counterfactual CPI Level, March 2022 = February CPI x [1 + (Counterfactual Monthly CPI Growth Rate/100)]
4. Counterfactual Annual CPI Growth Rate, March 2021 to March 2022 = Counterfactual March 2022 CPI/Actual March 2021 CPI – 1

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as of December 2021, under the assumption that vaccination rates among the employed population in each state and the overall state working age population are the same.

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The JEC estimate of 70 million unvaccinated adults was found using the November KFF survey, and is roughly the same as what current CDC data suggest. As of February 1, 2022, CDC reports that 191.5 million adults are fully vaccinated. With a total U.S. adult population of 258.3 million in 2021, this in turn suggests that 66.8 million adults are unvaccinated.

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²⁶⁰ See Rachel Sheffield and Scott Winship, “The Demise of the Happy Two-Parent Home,” Table 11; Joyce A. Martin, Brady E. Hamilton, Michelle J. K. Osterman, and Anne K. Driscoll, “Births: Final Data for 2019,” U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, Table 10, March 23, 2021, Accessed May 10, 2022, <https://www.cdc.gov/nchs/data/nvsr/nvsr70/nvsr70-02-508.pdf>; Michelle J.K. Osterman, Brady E. Hamilton, Joyce A. Martin, Anne K. Driscoll, and Claudia P. Valenzuela, “Births: Final Data for 2020,” U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, February 7, 2022, Accessed May 10, 2022, <https://www.cdc.gov/nchs/data/nvsr/nvsr70/nvsr70-17.pdf>.

²⁶¹ Data for 1970 – 1995: Stephanie J. Ventura and Christine A. Bacharach, “Nonmarital Childbearing in the United States, 1940-99,” U.S. Department of

Health and Human Services, Centers for Disease Control and Prevention. National Center for Health Statistics, October 18, 2000, Table 4, Accessed May 12, 2022, https://www.cdc.gov/nchs/data/nvsr/nvsr48/nvs48_16.pdf; Estimates for 1995-2020 are available from various National Vital Statistics Reports. Note: Data for Hispanics are not reported until 1990, and only for Hispanic and non-Hispanic white. Data for non-Hispanic black are reported beginning in 1995.

²⁶² Lyman Stone, “Declining Fertility in America,” American Enterprise Institute, December 2018, Accessed May 13, 2022, <https://www.aei.org/wp-content/uploads/2018/12/Declining-Fertility-in-America.pdf>.

²⁶³ The total fertility rate is projected based on “the prevailing age-specific fertility rates” and “is calculated by totaling the age-specific fertility rate as defined over five-year intervals.” See OECD Data, Fertility rates, Accessed May 13, 2022, <https://data.oecd.org/pop/fertility-rates.htm>; Brady E. Hamilton, Joyce A. Martin, and Michelle J. K. Osterman, “Births: Provisional Data for 2021,” U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, May 2022, Accessed June 2, 2022, <https://www.cdc.gov/nchs/data/vsrr/vsrr020.pdf>.

²⁶⁴ World Bank, “Fertility Rate, Total for the United States,” Retrieved from the Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/SPDYNTFRTINUSA>; Michelle J.K. Osterman, Brady E. Hamilton, Joyce A. Martin, Anne K. Driscoll, and Claudia P. Valenzuela, “Births: Final Data for 2020.”

²⁶⁵ Brady E. Hamilton, Joyce A. Martin, and Michelle J. K. Osterman, “Births: Provisional Data for 2021,” U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, May 2022, Accessed June 2, 2022, <https://www.cdc.gov/nchs/data/vsrr/vsrr020.pdf>.

²⁶⁶ Rachel Sheffield and Scott Winship, “The Demise of the Happy Two-Parent Home.”

²⁶⁷ Joint Economic Committee Republicans. Social Capital Project.